

# 2026 MONTANA ECONOMIC REPORT

ANALYSIS AND ASSESSMENT OF MONTANA'S ECONOMIC PERFORMANCE

## SALES TAX IN MONTANA *Is it time?*

### ALSO INSIDE

- U.S. AND STATE ECONOMIC OUTLOOKS
- STATE GOVERNMENT REVENUE REPORT
- UPDATES FROM MONTANA'S REGIONS
- BRIEFS ON THE STATE'S PRIMARY INDUSTRIES

# A message from the Director of the Bureau of Business and Economic Research



**FOR ALMOST 70 YEARS,** Montanans have relied upon the Bureau of Business and Economic Research for critical statewide and community-specific economic information. BBER has also played an important role in providing expert analysis on timely economic issues facing our state. From affordable housing to artificial intelligence to interstate migration, BBER has studied and convened conversations around complex topics, empowering Montanans to better understand and publicly debate issues that affect their lives.

The Economic Outlook Seminars bring together Montanans from varying professions, backgrounds, and viewpoints with the goal of supporting citizens of this great state as they make informed decisions. This year's Economic Outlook Seminar topic – exploring a general sales tax in Montana and how it might impact the economy – has a similar goal. We selected sales tax as the topic because it was the most

frequently asked about economic issue as we traveled the state this year. Interest is high, and we believe this program will help illuminate the issue and options.

As we enter 2026, this magazine and our seminar program also explore the Montana economic outlook from multiple perspectives. While the state's growth has clearly slowed over the past year, the pace of change in our key industries and regions is as fast as ever.

The Bureau engages communities across Montana through our outlook seminars and applied research projects as an expression of the University of Montana's public service mission. BBER's ability to accomplish our goals relies on the participation of Montanans like you. So, thank you for making time to participate in the 2026 Economic Outlook Seminar.

*Dr. Jeffrey Michael,  
Director, BBER*

# MONTANA ECONOMIC REPORT

WINTER 2026

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Photo courtesy of the U.S. National Park Service

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## LOCATIONS IN MONTANA

Absarokee	Hamilton
Belgrade	Hardin
Bigfork	Helena
Billings	Kalispell
Bozeman	Lakeside
Colstrip	Lame Deer
Columbia Falls	Laurel
Columbus	Livingston
Cut Bank	Miles City
Ennis	Missoula
Eureka	Polson
Gardiner	Red Lodge
Great Falls	Whitefish

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# Job growth stalls but incomes continue to rise

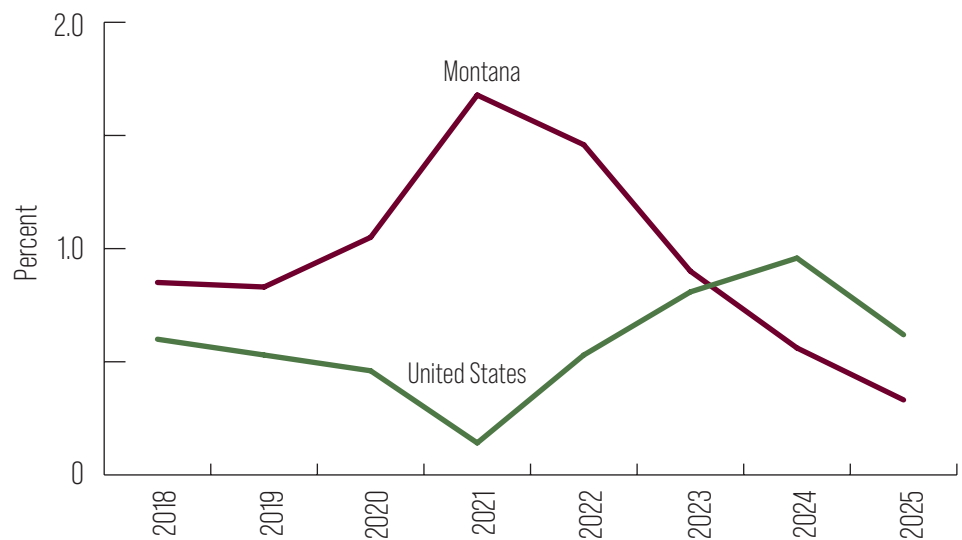
By Jeffrey Michael

Montana's economy continues to decelerate from its pandemic-era surge, and while overall growth is slower, the economy is far from stagnant. Average incomes are rising as higher-wage professional service and technical jobs continue to grow, tourism is leveling out, and many traditional natural resource-based industries are becoming a smaller part of the state's overall economic mix. Housing affordability is clearly impacting population growth, and labor scarcity continues to be a challenge for many businesses.

Our top story of 2024 was that Montana's population growth had fallen to a 0.52% rate, the lowest in 22 years after experiencing record growth just a few years earlier. Because of the federal government shutdown, we do not have official Census estimates for 2025 growth, but preliminary quarterly Bureau of Economic Analysis (BEA) population estimates are an alternative data source.

According to the BEA data, Montana's population growth slowed to a crawl in the

**FIGURE 1** Annual population growth rate



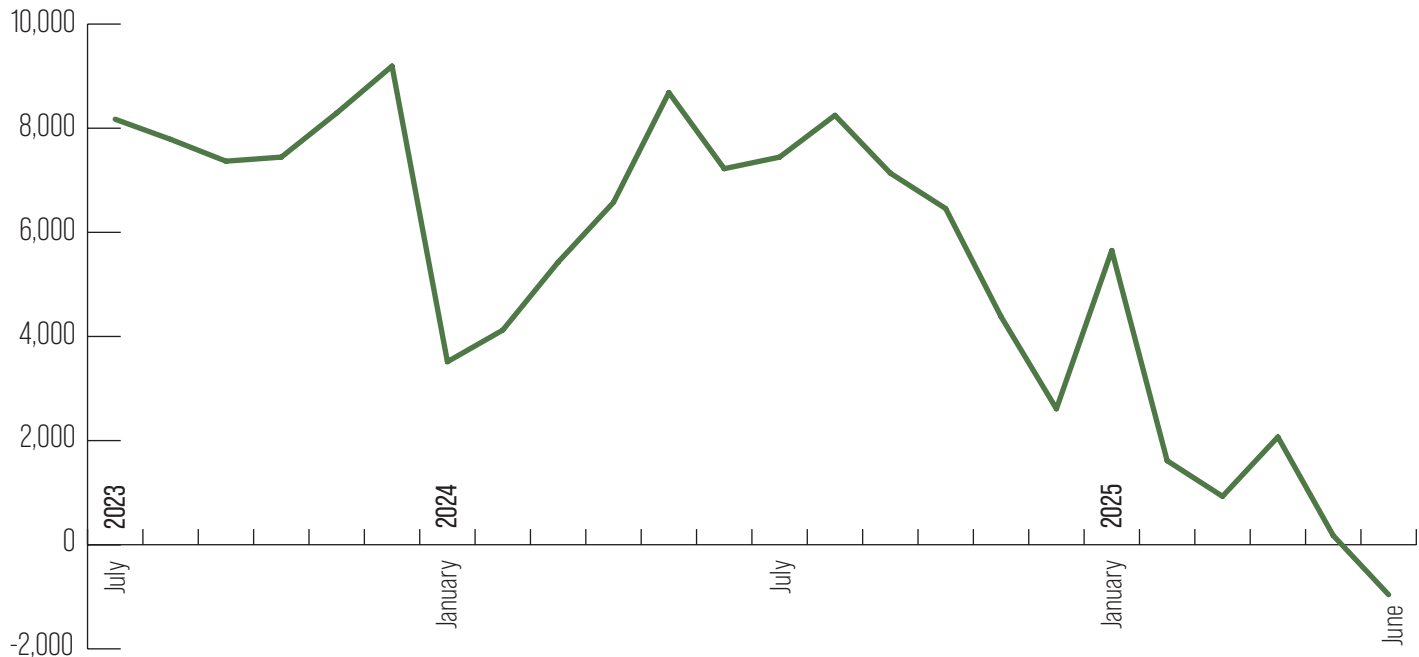
Source: U.S. Bureau of Economic Analysis

first two quarters of 2025 and only grew by 0.33% between May 2024 and May 2025 (Figure 1). U.S. population growth also declined in early 2025 as the immigration surge ended, but Montana's decline is more likely the result of its continued housing affordability challenge that depresses net domestic migration.

Job growth in Montana has also declined substantially, but the unemployment rate has remained at or

below 3% for the past year. Figure 2 displays the most recent jobs data for Montana, showing that June was the first month since the pandemic that total jobs in the state had declined compared to the previous year. The decline in jobs reflects a few sectors that clearly contracted, such as the loss of over 900 jobs in natural resources and mining, and declines of nearly 700 federal jobs and 500 manufacturing jobs. Decreases of about 800 jobs in leisure and

**FIGURE 2** Change in Montana jobs from a year prior



Source: U.S. Bureau of Labor Statistics

hospitality and other services could reflect a shortage of workers in these lower-paying sectors as summer seasonal hiring was less robust than in the past. These job losses were offset by gains in high-paying fields, including nearly 1,600 health care jobs, 900 jobs in professional and business services, and over 200 jobs in the information sector.

On a more positive note, the same data that shows Montana jobs decreased over the year ending in June 2025 also shows that the average wage of Montana jobs grew by 5.4% over the same period – the fastest wage growth of any state and far above the national average wage growth of 3.4%. This is partially driven by the shift in the economy toward higher-paying sectors, although it should be noted that wage growth was significant across all industries. For example, average wages in leisure and hospitality grew by a robust 5.7% even as overall jobs in the industry declined, possibly reflecting competition for scarce workers and increased hours worked.

### Performance of Montana's Industries and Income

Total inflation-corrected (real) personal

income grew by a strong 3.2% between the second quarter of 2024 and 2025, an increase from 1.8% growth the previous year. This is an impressive performance in total income growth when considering the weak population growth discussed earlier. Some of this overall income growth is due to a recovery in farm earnings and an increase in government transfer payments, but growth was still a solid 2.6% when focused on real nonfarm earnings.

Table 1 shows inflation-adjusted earnings growth by industry in Montana, a good measure of the scale and structure of economic growth. Continuing a multiyear trend, professional, scientific, and technical services is powering Montana's economy with over \$337 million in real earnings growth in 12 months, an impressive 8.2% growth rate followed by expansion in the large and steadily growing health care sector, which added over \$220 million in earnings over the year. Finance and insurance was the third-highest contributor, as improved net interest margins helped banking profitability. Construction grew by just under \$100 million (2.1%), which is somewhat slower

than recent years, and real estate earnings grew again after declining the previous year.

Four sectors saw a decline in real earnings. Two natural resource sectors, mining and forestry, added another negative year on top of declines in 2024, with mining seeing a \$120 million decline. Two other sectors posted declines for the first time in many years. Federal civilian earnings declined by over \$17 million in response to federal job cuts, and accommodation and food services posted a surprising \$25 million decline in earnings that parallels a decrease in jobs discussed earlier.

### Looking Ahead to 2026

Montana's economy enters 2026 with mixed prospects. The state's emerging scientific and technical sectors seem poised for further growth. The bioscience, pharmaceutical and health care sectors could get a boost as Montana implements its nation leading "right-to-try" law that has attracted interest from firms interested in new opportunities to market and further develop experimental treatments. The mining sector that has seen steep losses in

recent years should see improvement as copper and palladium prices improve and regulatory changes support growth in coal production.

There are also areas of concern. Montana has always had a concentration of federal jobs due to its expansive federal lands, but federal layoffs are ongoing and the full extent of these will come into clearer focus as we move into 2026. Big changes in U.S. health care create uncertainty for this large and critical industry. The tourism and hospitality sector is slowing down as budget conscious travelers may continue to show restrained spending even as they continue to visit Montana in large numbers. Residential construction is another area to watch as building permits have shown a slight decline in 2025, and slowing population growth and property tax changes that increase the costs of owning a second home in Montana could weigh on demand.

Finally, 2026 may be the year that the data center boom that has been propelling business investment across the U.S. finally hits Montana in earnest. While a large data center project planned near Great Falls was recently canceled, other large projects outside Billings and Butte continue to move through the planning stages and could be under construction in late 2026. Other projects are rumored to be in the works. The real scale and timing of data center investment is highly uncertain, and large economic impacts may not be felt in Montana until 2027.

Overall, Montana's economy is likely to grow modestly in 2026, similar to 2025. While overall growth rates may change little, it is likely to be an eventful year as the economy continues to respond to rapid technological, demographic, and political changes. ■

*Jeffrey Michael is director at the Bureau of Business and Economic Research at the University of Montana.*

## Continuing a multiyear trend, professional, scientific, and technical services is powering Montana's economy.

**TABLE 1 Real nonfarm earnings and change by industry in Montana**

Industry	Earnings (thousands of dollars)	Annual % change
<b>Professional, Scientific and Tech Services</b>	<b>\$ 337,402</b>	<b>8.2</b>
Health care	221,924	3.3
Finance and insurance	154,337	7.1
State and local government	120,282	2.2
<b>Construction</b>	<b>98,992</b>	<b>2.1</b>
Admin support and waste management	95,898	5.7
Real estate	88,140	3.8
Arts, entertainment, and recreation	62,605	9.5
<b>Information</b>	<b>58,218</b>	<b>6.7</b>
<b>Wholesale trade</b>	<b>54,407</b>	<b>2.6</b>
<b>Transportation and warehousing</b>	<b>54,239</b>	<b>2.9</b>
Management of companies	25,710	8.6
Military	21,610	3.5
<b>Utilities</b>	<b>20,798</b>	<b>4.7</b>
<b>Manufacturing</b>	<b>17,967</b>	<b>0.9</b>
Educational services (private)	14,434	3.9
<b>Retail Trade</b>	<b>8,645</b>	<b>0.2</b>
Other services (private)	627	0.0
Federal civilian	-17,290	-0.9
<b>Forestry</b>	<b>-19,661</b>	<b>-5.0</b>
Accommodation and food services	-25,288	-1.0
<b>Mining</b>	<b>-121,986</b>	<b>-10.1</b>

Source: U.S. Bureau of Economic Analysis, 12 months ending Q2 2025

# All Montana regions see slower growth in 2025

By Derek Sheehan and Jeffrey Michael

For the past decade, Montana's economic growth has been led by two counties that have experienced some of the fastest economic growth in the United States.

As the gateway to popular national parks Glacier and Yellowstone, Flathead and Gallatin counties have experienced the largest population increases in Montana in the past five years. These counties have also experienced rapid growth in the construction and hospitality sectors, as well as expanding tech sectors that have fueled new jobs in professional and technical services and advanced manufacturing. Over the past six years, Gallatin County job growth has averaged over 4% annually, and Flathead County has averaged nearly 3% job growth. To put those numbers in perspective, total U.S. employment grew just over 5% over the entire six-year period from Q2 2019 to Q2 2025, an annualized rate less than 1%, meaning these two Montana communities were growing at three to four times the national pace.

Other areas of Montana experienced more moderate rates of growth over

Over the past year,  
Montana's economic  
growth has decreased and  
the slowdown has been  
most notable in jobs.

this period. For example, Missoula and Yellowstone counties – the other two counties in Montana with populations over 100,000 – grew at about half the pace of Gallatin and Flathead counties but still exceeded the U.S. average.

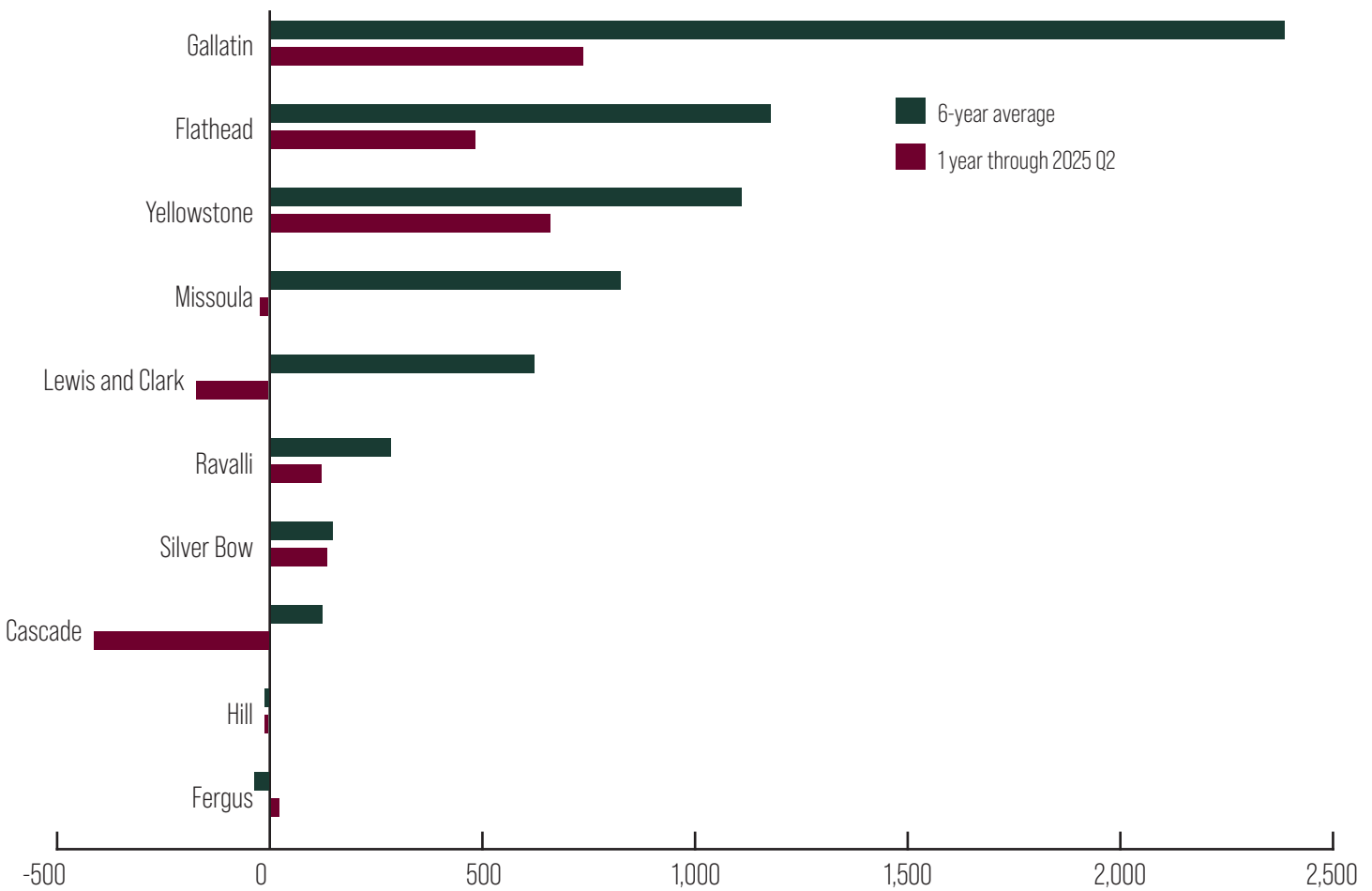
Over the past year, Montana's economic growth has decreased and the slowdown has been most notable in jobs. As of June 2025, the most recent data available from the Quarterly Census of Employment and Wages, the majority of Montana's counties (35 out of 56) had experienced a decrease in jobs over the previous 12 months. The fastest-growing counties of Gallatin and Flathead have seen their growth rates fall to less than half of their six-year average, among the largest decreases in the state. However, these two counties, along with the state's

most populous county – Yellowstone, home to Billings – have all continued to add jobs faster than other areas of the state. In contrast, Missoula, Lewis and Clark, and Cascade counties have experienced an overall decrease in jobs over the most recent 12 months. Reductions in federal government employment are a common factor in Missoula, Lewis and Clark, and Cascade counties – all counties with the largest concentrations of federal jobs.

## Gallatin County

Gallatin County remains Montana's growth leader but has cooled considerably from pandemic-era highs. After adding about 2,300 jobs annually from 2022 to 2024, growth has slowed to just over 700 in the past year. Housing affordability has become a major constraint to growth, slowing the pace of in-migration. Despite the slowdown, the county continues to benefit from its tech sector presence and strong Yellowstone National Park tourism, creating growth across much of the service sector. The Bozeman area still leads the state in job creation but has experienced a decline of a few hundred construction jobs in 2025 after large

**FIGURE 1 Annual change in total jobs for select Montana counties**



Source: U.S. Quarterly Census of Employment and Wages

expansions in recent years, indicative of the slowing economy.

**Flathead County**

Growth around Kalispell, Whitefish, and Columbia Falls continues, driven by strong in-migration from other states, though the pace has fallen substantially from pandemic highs. Accommodation and food services has about 180 fewer employees in 2025. Rather than a decrease in demand, the recent decline in hospitality jobs could reflect workforce challenges including an aging labor pool. Flathead County also stands out as a region where the manufacturing sector has continued to weather hard times relatively well. The wood products sector has been resilient in Flathead County in contrast to declines

in other parts of the state, and advanced manufacturing of computer components has grown. Health care and construction, which experienced explosive pandemic-era growth, have returned to more normal growth rates as population growth has also returned to more normal growth.

**Missoula and Ravalli Counties**

In 2024, Missoula County lost two large wood products manufacturing facilities in the closures of Pyramid Mountain Lumber in Seeley Lake and Roseburg Forest Products Missoula particleboard plant. These closures have been followed by the 2025 shutdown of the Edge wood products facility in Bonner, resulting in the loss of about 400 wood products manufacturing jobs in

less than two years. Federal employment has decreased by about 120 jobs as of June 2025, with more losses expected as data for the second half of 2025 is released and the full impact of the Forest Service Region 1 headquarters closure and cutbacks to the Rocky Mountain Laboratories in Hamilton hit. Combined with a drop of over 500 employees in accommodation and food services, these losses represent a significant blow to the region’s economic base. However, health care, construction, and the information sectors have been a bright spot in the local employment picture. Health care is a regional strength and has added about 400 jobs in the past year across the two counties. Providence St. Patrick Hospital and Community Medical



Center provide economic stability for Missoula's service sector, while the continued expansion of Bitterroot Health has delivered substantial employment growth in Ravalli County.

### Yellowstone County

Billings remains Montana's largest city, though employment growth has slowed after the pandemic recovery. The deceleration is largely due to a decrease in construction (down 326 jobs in 2025) and the broader service economy, including transportation and warehousing. Health care continues as a major growth sector, as evidenced by Intermountain Health St. Vincent's June 2025 groundbreaking on a nearly \$1 billion facility. Health care employment jumped by 765 jobs over the past year. The county's three oil refineries remain important economic anchors, although recent declines in mining in nearby counties have had some ripple effect in the Billings area. Yellowstone County is performing below the state's fast-growing western counties but maintains its role as an energy, finance, and health care hub for much of Montana.



### Lewis and Clark County

As Montana's capital, Lewis and Clark County has historically relied on stable government employment of about 11,000 workers while experiencing moderate growth. After very strong growth in 2024, Lewis and Clark County has experienced a modest decline in jobs during the first half of 2025, with the biggest declines in the past year being a loss of about 195 government employees and another 124 in accommodation and food services. Despite these losses, health care has demonstrated consistent expansion. Although not matching the growth pace of Gallatin, Yellowstone, and Flathead counties, Lewis and Clark County maintains a stable economic base and relative affordability compared to Montana's fastest-growing regions.



Photos courtesy of Creative Commons

### Cascade County

Great Falls and Cascade County face demographic headwinds, with both migration and natural population change turning negative after about three years of positive net-migration. Unlike counties with concentrated losses in specific sectors, Cascade County experienced broad-based employment declines across health care, government, retail trade, accommodation and food services, manufacturing, and other services. As a regional service center for the Golden Triangle counties to its north, Cascade County may be experiencing some spillover effects from low crop prices in these agricultural counties. In 2025, Cascade County has seen some expansion in construction employment and professional and business services, offsetting some declines in other areas. The Great Falls area is characterized by uncertainty over multiple very large projects that could quickly change the trajectory of what has been the slowest growing of the state's main economic centers. The largest of these is Project Sentinel, a massive \$150 billion project to modernize the nation's ICBM nuclear arsenal. The project has three locations in the United States, including one surrounding Great Falls and Malmstrom Air Force Base. However, Project Sentinel has been delayed and is said to be undergoing some replanning as a town hall to update the community was canceled in August 2025. In addition, a massive \$1 billion data center outside Great Falls that was announced in early 2025 was canceled by its developer, Atlanta-based Ardent TAC Data Center, in November. However, Great Falls remains an attractive location for data-center development, and it would not be surprising to see new data center projects given the nationwide expansion of this sector. The Great Falls Little



Shell Resort was announced about a year ago and would bring a large hotel, casino, water park, and an arena for large events, but the construction timeline is uncertain. While Cascade County has had the largest decline in employment in the state over the past 12 months, big changes could be in store with major new projects in the planning stages.

### Butte-Silver Bow

Butte-Silver Bow's economy continues its long transition from its mining heritage. Mining employment remains highly concentrated in Silver Bow County compared to the nation and has provided a stable core for the regional economy over this period. Government employment, which had been growing, reversed course with substantial losses driven by state budget pressures and local government constraints. Health care has reemerged as a leading employment sector and is

on a substantial upswing, anchored by St. James Hospital's expansion as part of Intermountain Health. Construction employment is up modestly and could see a substantial increase in late-2026 if two large data centers break ground according to current plans.

### Fergus County

Lewistown has long been a beacon of stability in central Montana, and this reputation played into very significant economic news: VACOM, a German vacuum technology manufacturer, opened its first U.S. manufacturing facility in Lewistown in July 2025. VACOM's leadership cited Lewistown's stable community and quality of life as key factors in their location decision. The facility currently employs 12-25 workers with potential to expand up to 200 jobs over the next two years, representing a substantial bright spot for manufacturing in central Montana.

### Hill County

Hill County's economy centers on agriculture, rail transportation, and border activities. BNSF Railroad and U.S. Border Patrol remain anchor employers. Three significant employment sectors (government, wholesale trade, transportation and warehousing) saw substantial losses this past year, likely reflecting broader softness in rail freight volumes and cross-border trade activity. However, employment improved across most other sectors after years of flat growth, with strong gains in services, particularly health care, and continued growth in construction. ■

*Derek Sheehan is an economist at the Bureau of Business and Economic Research at the University of Montana.*

*Jeffrey Michael is director at the Bureau of Business and Economic Research at the University of Montana.*



# Energizing Montana Communities

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# General fund revenue collections increased in 2025

By Terry Johnson

As shown in Table 1 for fiscal 2025, total general fund revenue collections were \$3.46 billion with 77% collected from income (individual and corporation) taxes. These revenues are used to finance a variety of state services, but most of these funds are used for education, human service, and public safety programs.

Total general fund revenue collections increased by \$136.9 million, or 4.1%, from collections received in fiscal 2024. This change was primarily due to increases in income taxes (individual and corporation, \$94.5 million), insurance taxes (\$12.9 million), and vehicle fees (\$11 million) for a total increase of \$118.4 million of the \$136.9 million. The property tax decline observed since fiscal 2023 was due to legislative changes adopted by the 68th Legislature that redirected most of these revenues to a non-general fund account for support of public education. In addition, there is a non-general fund account called the budget stabilization reserve fund (BSRF). This fund is used to provide funding for the general fund account if revenue collections fall below expectations. The BSRF is funded from general fund monies that are above a specified amount at the end of each fiscal year. The BSRF, however, is capped at a certain amount. When this cap is reached, the excess is

returned to the state general fund. This occurred in fiscal year 2022 (\$115.1 million) and 2023 (\$260.8 million) and is included as “Other Sources” revenue category shown in Table 1. There was no transfer of these monies in fiscal 2024 and 2025. Interest earnings sources declined from fiscal 2022 due to legislative changes to redirect some of these revenues to a non-general fund account. This redirection terminated at the end of fiscal 2025.

The changes in individual income tax collections since fiscal 2022 can be explained by federal legislation enacted to address the impacts of Covid-19. The federal stimulus payments enacted by Congress resulted in substantial payments to Montanans. The economic statistics maintained by the U.S. Bureau of Economic Analysis provide measures of transfer payments to Montanans as well as wage and salary income of employees. Figure 1 shows the year-over-year change in transfer payments since 2015. The amount of change increased by \$2.9 billion from 2019 to 2020, a 27.4% increase with a further increase of \$1.3 billion from 2020 to 2021 for a total increase of \$4.1 billion over the two-year period. Once the stimulus payments were eliminated, transfer payments declined by \$1.2 billion from 2021 to 2022. Transfer payments from 2022 to 2024 have now returned to a more normal growth pattern observed prior to 2020.

Since these monies are considered taxable income under Montana law, income tax collections changed accordingly based on the tax liability of the taxpayer.

The pandemic also had an impact on the workforce available for Montana businesses. Throughout Montana there were numerous posted signs indicating businesses were searching for workers. This workforce demand increased the wage offerings of businesses. Higher wages increased total state wage and salary incomes as shown in Figure 2. Total wage income increased by \$2.6 billion, or 10.9%, from 2020 to 2021 and \$2.5 billion, or 9.4%, from 2021 to 2022. Wage growth from 2022 to 2024 has moderated but continues to be higher than historical trends prior to 2021. Higher wage income increased state individual income tax collections in fiscal 2022 but were diminished by the decline in transfer payments in calendar 2022. Individual income tax collections are expected to return to a more normal growth pattern after 2025, reflecting more normal growth rates for wages and transfer payments as well as taxpayer behavior payment patterns returning to historical trends. ■

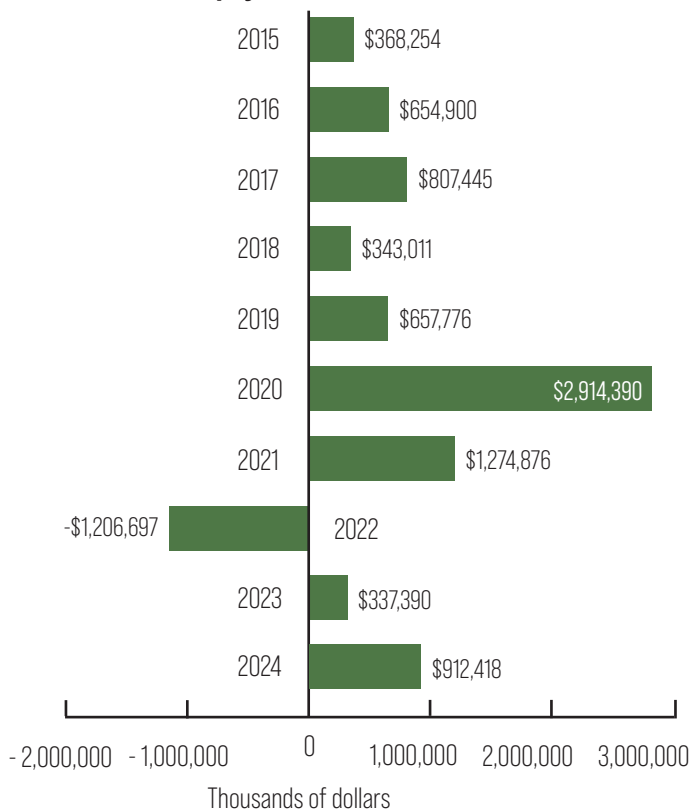
*Terry Johnson is the former chief revenue forecaster for the state of Montana. He is now retired.*

**TABLE 1 State general fund revenue collections**

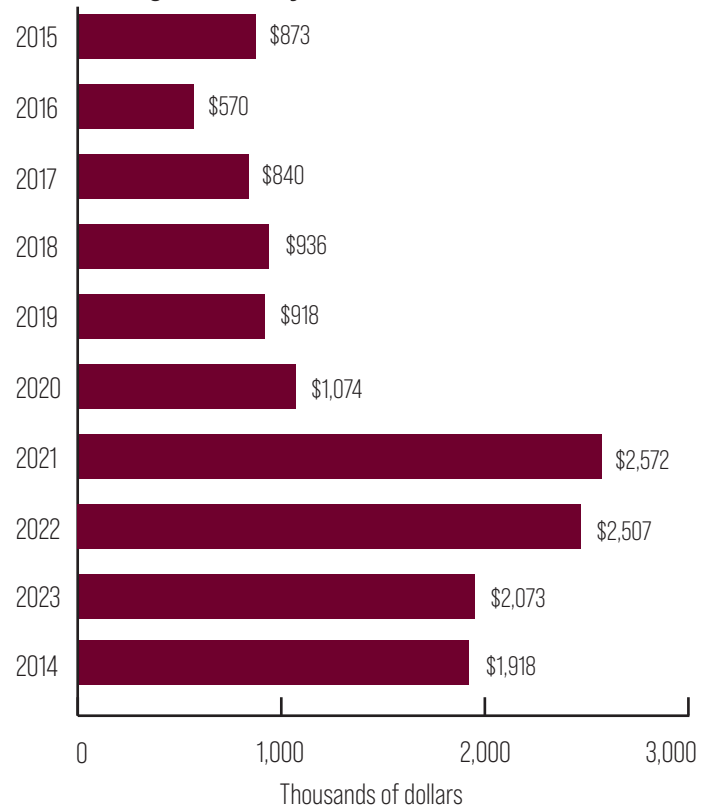
Revenue source	Collections in dollars					% of FY 25 total	\$ Change FY 24 to 25	% Change FY 24 to 25
	FY 21	FY 22	FY 23	FY 24	FY 25			
<b>Top Seven</b>								
Corporation Tax	266,506,177	293,683,433	309,883,622	312,276,363	321,207,539	9.3	8.9	2.9
Individual Income Tax	1,765,418,237	2,393,807,454	2,254,305,064	2,243,946,324	2,329,579,925	67.3	85.6	3.8
Insurance Tax	87,297,348	97,939,892	106,195,541	115,074,615	127,927,609	3.7	12.9	11.2
Oil & Natural Gas Tax	39,540,071	70,510,037	71,038,914	64,404,749	58,664,973	1.7	-5.7	-8.9
Property Tax	310,682,323	335,114,372	355,981,969	17,222,099	15,339,311	0.4	-1.9	-10.9
Vehicle Fee	117,790,479	121,138,184	123,001,012	124,834,508	135,868,284	3.9	11.0	8.8
Video Gaming Tax	74,917,334	77,881,279	80,105,377	83,385,066	83,535,312	2.4	0.2	0.2
<b>Business</b>	69,434,800	94,133,968	96,273,191	99,323,171	106,353,195	3.1	7.0	7.1
<b>Consumption</b>	92,872,317	119,928,266	135,654,789	125,067,901	125,645,168	3.6	0.6	0.5
<b>Interest Earnings</b>	21,082,849	28,336,867	18,104,929	19,138,621	20,336,733	0.6	1.2	6.3
<b>Natura Resource</b>	40,580,789	54,315,469	73,096,976	48,044,174	56,006,338	1.6	8.0	16.6
<b>Other</b>	77,599,125	204,850,952	319,778,227	69,653,657	78,852,079	2.3	9.2	13.2
<b>TOTAL GENERAL FUND</b>	<b>\$2,963,721,849</b>	<b>\$3,891,640,173</b>	<b>\$3,943,419,611</b>	<b>\$3,322,371,248</b>	<b>\$3,459,316,466</b>		<b>\$136.9</b>	<b>4.1%</b>

Source: Statewide Accounting, Budgeting, & Human Resource System

**FIGURE 1 Year-over-year change in Montana transfer payments**



**FIGURE 2 Year-over-year change in Montana wage and salary income**



Source: U.S. Bureau of Economic Analysis

# Data centers and tax reform top the list of major economic events

By Jeffrey Michael

Montana's economy may be experiencing slower growth, but the pace of change is as fast as ever. Among the most impactful events of 2025 were:

1

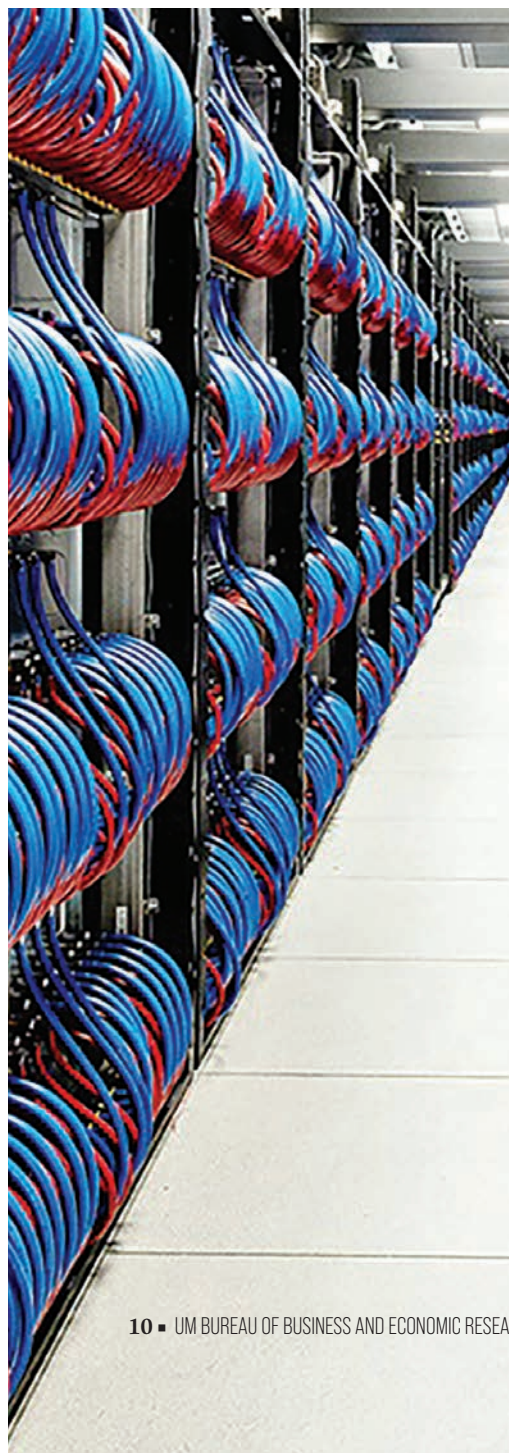
**Massive data centers were announced outside Billings and Butte.** The largest of these, proposed by Quantica infrastructure, is a 500 megawatt (MW) to 1 gigawatt (GW) data center on a 5,000-acre site north of Billings. Another two data centers are proposed near Butte by Atlas Power (up to 150 MW by 2030) and Sabey Data Centers (up to 250 MW). Construction is planned to begin in late 2026.

2

**Governor Greg Gianforte signed what is estimated to be the largest income tax reduction in state history.** The income tax cut has three components. 1) The top marginal rate, currently at 5.9%, will be reduced to 5.65% in 2026 and 5.4% in 2027. 2) The amount of income subject to the lowest 4.7% rate will more than double in 2026 and expand further in 2027. 3) The state's Earned Income Tax Credit (EITC) will double from 10% of the federal EITC credit to 20%.

3

**Montana passed major property tax reform, cutting taxes for primary residences and increasing tax rates on second homes, short-term rentals, and non-residential properties.** The first year of implementation, the bill introduces tiered property tax rates for residential property, increasing tax bills for homes over \$1.5 million in value and cutting taxes for moderately priced homes. In the second year of implementation during the 2026 tax year, the bill will introduce a new homestead discount for primary residents and long-term rentals, which will result in higher tax bills for second homes and vacation rental properties.



# 4

**Montana positioned itself on the frontier of allowing patient access to experimental treatment** when it passed the first-in-the-nation law (SB535) that allows firms to move quickly from a Phase 1 trial focused on safety into limited commercialization before Phase 2 efficacy trials are complete. This enhanced “Right to Try” law is stimulating interest from biopharma firms in developing “experimental treatment centers” in the state, which could boost the biotech and medical research and so-called “medical tourism.”

# 5

**The U.S. Forest Service announced it is closing the Region 1 Headquarters in Missoula** that was established in 1908 as it consolidates offices and reduces employment. The Forest Service fire lab will remain in Missoula. This closure is the highest profile example of federal workforce cuts across multiple federal agencies across the state.

# 6

**German vacuum technology manufacturer VACOM opened its U.S. headquarters in Lewistown in July 2025**, beginning operations with a precision component cleaning facility currently employing 12-25 workers. The company projects a \$90 million total investment and 500 jobs by 2027-2029, bringing another piece of the semi-conductor supply chain to Montana.

# 7

**The One and Only, an ultra-luxury global hotel and resort brand, opened its first U.S. resort in Big Sky in November.** One and Only Moonlight Basin sits on 240 acres and features a private gondola connecting it to Big Sky Resort. The least expensive rooms available this winter season are listed at \$1,980 per night.

# 8

**Intermountain Health broke ground in Spring 2025 on a nearly \$1 billion replacement for St. Vincent Regional Hospital in Billings** — Montana’s largest capital project ever. The 14-story, 737,000-square-foot facility is expected to open in 2029.

# 9

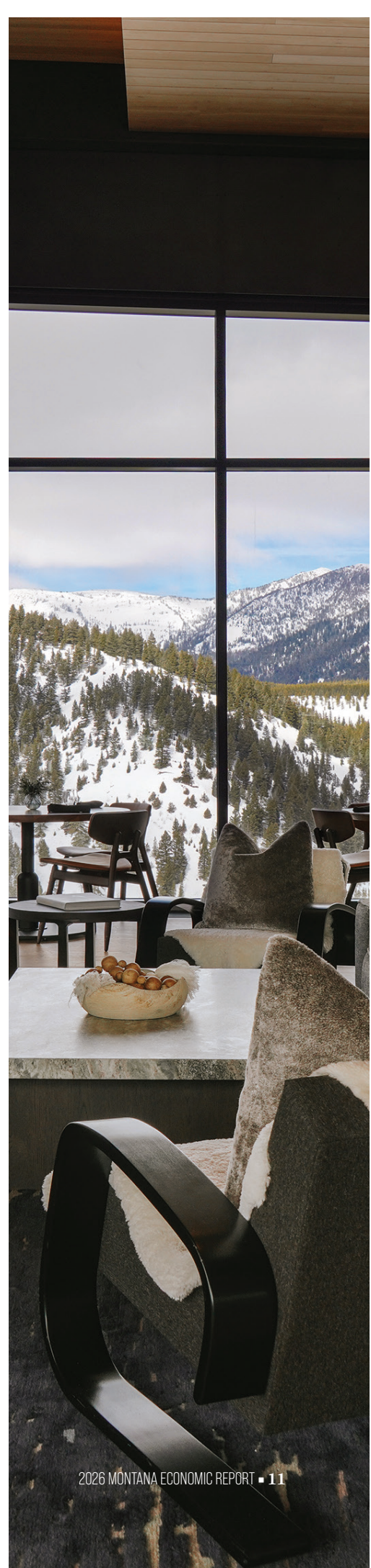
**The “Flathead Lake Club” development is approved for Lakeside, Montana.** The super luxury 1,700-acre resort community is backed by the Discovery Land Company, which also owns the Yellowstone Club near Big Sky.

# 10

**The U.S. Department of Commerce announced a new Community Engagement Office for the U.S. Patent and Trademark Office** at Montana State University in December 2025 that will be the third-largest hub in the western U.S. supporting innovators. A month earlier, Montana State University was selected as a Department of Defense Innovation Unit OnRamp Hub. The pair of announcements signal the Bozeman area’s continued emergence as a tech and innovation center. ■

*Jeffrey Michael is director at the Bureau of Business and Economic Research at the University of Montana.*

*Photos courtesy of U.S. Department of Energy (left) and One&Only Resorts and Private Homes (right)*



# Dodging a destructive trade war as AI investment fuels growth

By Jeffrey Michael

The government shutdown may have ended a few weeks ago, but the economic outlook is still clouded by the resulting data blackout as this article is written in early December. Data that is normally critical to the outlook for the upcoming year, including third quarter GDP, jobs reports for October and November, and updated Census estimates are still unavailable. While this lack of data obscures the outlook, we have the benefit of a more stable economy with substantially reduced policy uncertainty compared to earlier in 2025.

In fact, the government shutdown has had less impact on the economy than its six-week duration would suggest. The deal to reopen included no changes to federal health care spending or policy, government jobs were preserved, and federal workers will get back pay. The shutdown impacts will reduce fourth quarter GDP, but for the most part, the economic impact is contained to a variety of delays and short-term inefficiencies that are insufficient to change the overall path of growth.

Looking through the trade volatility in the first half of the year, and the short-term data blackout in the second half of the year, **the economy appears to be growing at a modest 1.5% to 2% rate for most of 2025.**

A year ago, the U.S. economic outlook for 2025 was foggy due to two sources of uncertainty: policy changes by the incoming Trump administration and the uncertain scale of the emerging AI boom. Both have delivered even bigger changes than anticipated.

## Tariff Uncertainty Fades

The first half of 2025 was dominated by tariff news. Imports accelerated into the first quarter in anticipation of tariffs, and President Trump's proposals were even bigger and bolder than anticipated. In April, this led to a steep drop in financial markets and fear of a global recession sparked by a global trade war if other countries retaliated with their own protectionist measures as anticipated. However, the president paused implementation of many tariffs through the summer, and most trading partners eventually chose not to retaliate and spark a mutually destructive trade war. While

the worst-case scenario was avoided, U.S. tariffs remain at their highest level in nearly a century and are contributing to stubbornly high long-term interest rates, inflationary pressures, and disrupted business activity in impacted sectors.

The early year surge in imports caused GDP to drop in the first quarter, followed by a rebound in the second quarter. Looking through the trade volatility in the first half of the year, and the short-term data blackout in the second half of the year, the economy appears to be growing at a modest 1.5% to 2% rate for most of 2025. Key indicators like housing starts and job growth have experienced slight declines in 2025 consistent with weak growth, but far short of recession. As tariffs start to impact the cost of imported goods, inflation has crept back up to 3% even as housing costs have stopped growing and gas prices have decreased.

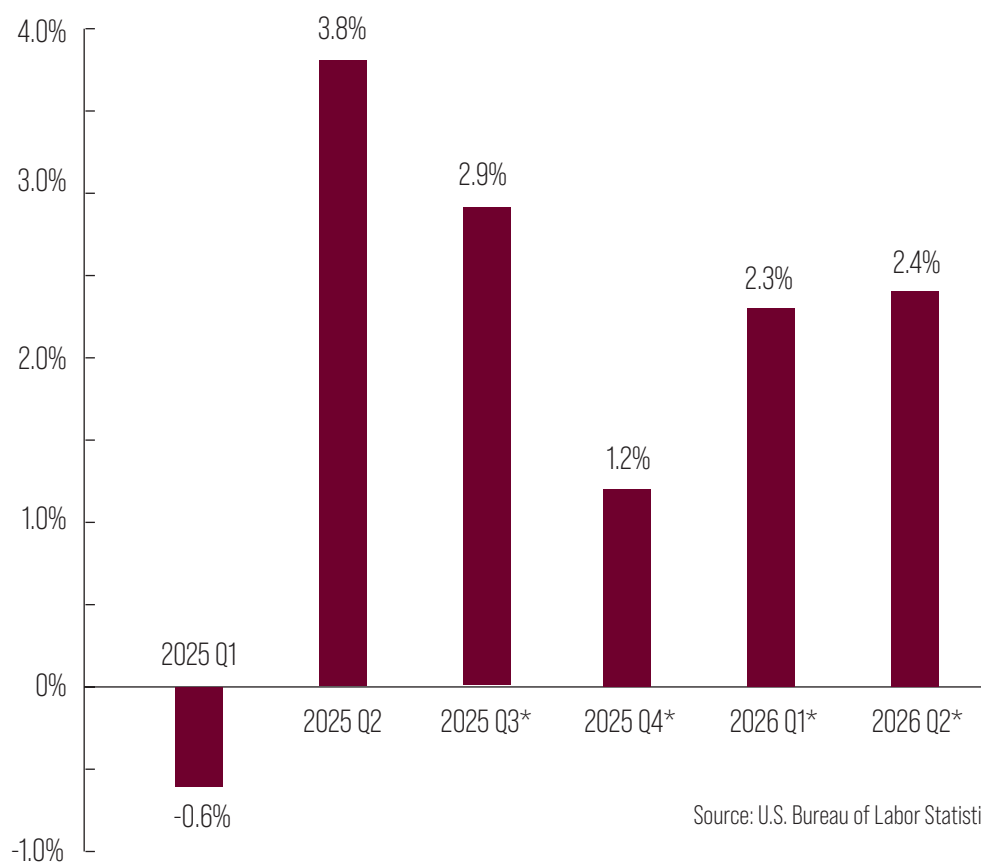
Counteracting the tariff headwinds has been a massive surge in AI-related investment spending, including massive

**TABLE 1** Key economic indicators for the United States, actual and forecasted [\*] annual rates

Annual rates	2025 Q1	2025 Q2	2025 Q3*	2025 Q4*	2026 Q1*	2026 Q2*	2024	2025*	2026*	2027*	2028*
<b>Real GDP</b> [% change]	-0.6	3.8	2.9	1.2	2.3	2.4	2.8	2.0	2.2	1.8	1.6
<b>Real consumer spending</b> [% change]	0.6	2.5	3.1	1.2	2.1	2.2	2.9	2.5	2.1	1.8	2.1
<b>Federal funds rate</b> [%]	4.33	4.33	4.32	3.88	3.61	3.58	5.14	4.21	3.41	3.12	3.13
<b>10-yr. T-note yield</b> [%]	4.45	4.36	4.26	4.13	4.05	3.98	4.21	4.30	3.97	3.89	3.91
<b>Brent crude price</b> [\$/barrel]	76	68	69	64	59	57	81	69	58	64	65
<b>Consumer Price Index</b> [% change from previous quarter]	3.8	1.6	3.1	3.0	3.2	2.8	3.0	2.7	2.9	2.5	2.2
<b>Housing starts</b> [millions]	1.40	1.35	1.35	1.31	1.31	1.30	1.37	1.35	1.30	1.30	1.30
<b>Unemployment rate</b> [%]	4.1	4.2	4.3	4.4	4.5	4.5	4.0	4.2	4.5	4.5	4.5

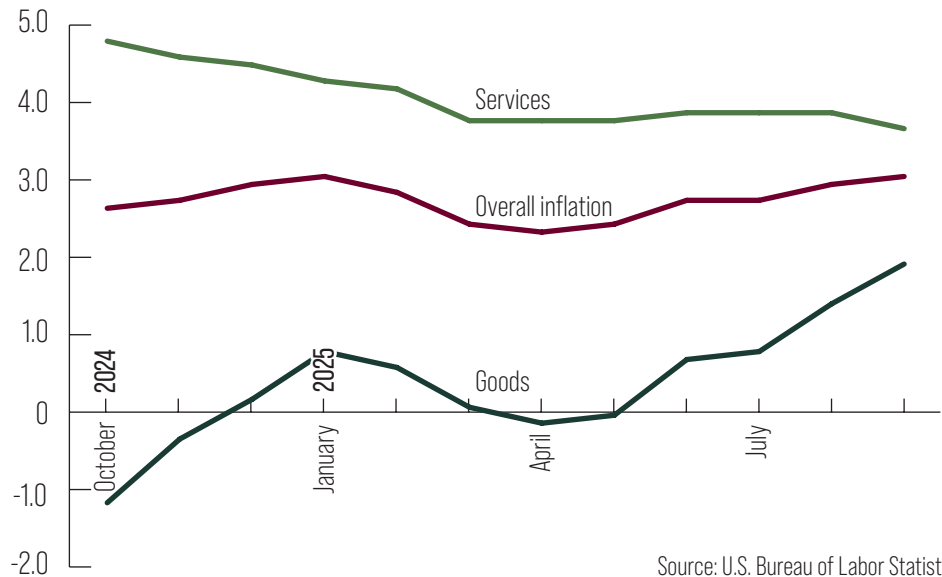
Source: S&P Global based on November 2025 forecast

**FIGURE 1** Annual rate of GDP growth, actual and forecasted [\*]



Source: U.S. Bureau of Labor Statistics

**FIGURE 2** Percent annual change in prices, October 2024 to September 2025



Counteracting the tariff headwinds has been a massive surge in AI-related investment spending, including massive capital investments in structures and computing equipment as data centers are built around the country.

capital investments in structures and computing equipment as data centers are built around the country. It is estimated that data center investment has boosted U.S. GDP growth by nearly 2 percentage points in 2025, accounting for most of current U.S. growth as many traditional types of business and residential investment and consumer spending are sluggish.

#### Looking Forward to 2026

Tariffs and AI will continue to be critical factors going forward. It appears that AI-driven investment spending will remain robust in the year. There is concern that AI-dependent tech stocks are overvalued and create a risk for a stock market correction and drop in investment. Whether AI is an investment bubble or the foundation for future economic growth will be a central question in the years to come.

Tariff headwinds are likely to decrease in 2026. The president has recently reduced tariffs for certain products like beef in response to affordability concerns, and this could expand to additional areas. In addition, the Supreme Court will rule soon on the legality of reciprocal tariffs, and it seems increasingly likely that the court could strike down roughly half of the tariffs

implemented in 2025, especially those on consumer products. While the president will respond by expanding tariffs under other authorities, these have a slower and more deliberate process. Overall, tariffs should be somewhat lower and much more stable in the next year, which will reduce their negative impact.

There will also be some fiscal stimulus in 2026 as the tax cuts from the “One Big Beautiful Bill” start to hit household budgets. However, most of the spending cuts in the bill are postponed until 2027 or later. Even with these factors boosting the economy, economic growth is forecast to only inch up to 2.2% in 2026 and dip below 2% growth in 2027 and 2028. Weighing against growth in 2026 will be a housing market that continues to struggle with affordability issues that depresses residential investment, as well as slow hiring and stalled labor force and population growth as immigration drops sharply. ■

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A photograph of a line of cars on a two-lane road that curves to the left. The road is wet and has double yellow lines. The scene is shrouded in a thick fog or mist, with tall trees visible in the background. The cars are viewed from behind, and their brake lights are illuminated. The overall atmosphere is hazy and somewhat somber.

Sales tax  
in Montana

*Is it time?*

By Jeffrey Michael

## For the past 55 years, the roster of states with and without a sales tax has not changed while the economy has changed dramatically.

Montana, Alaska, Delaware, New Hampshire, and Oregon are the only five states that do not have a general statewide sales tax. Mississippi was the first state to enact a general sales tax in 1930. Over the next 40 years, 44 additional states implemented sales taxes, with Vermont being the last to do so in 1969. For the past 55 years, the roster of states with and without a sales tax has not changed while the economy has changed dramatically, shifting away from goods production and toward services.

Montana's economic structure has also shifted toward services and tourism. Natural resource industries like mining and timber that once generated a large share of state tax revenue have decreased in prominence. As Montana hosts more visitors who do not pay state income taxes – and property taxes have increased for local residents – more Montanans have been asking if it is time to reconsider the state's longstanding opposition to a general sales tax.

### Arguments for a sales tax

#### Taxing tourists

In a state with 15 million annual visitors and a little more than 1 million residents, taxing tourists is a frequent argument for a sales tax. Many states with large tourism economies like Nevada, Hawaii, and Florida rely heavily on sales taxes. Sales taxes are one way for a state to export a portion of its tax burden to nonresidents and get visitors to contribute more to local public services that they utilize when visiting the state. The Montana Legislative Fiscal Division sales tax model estimates that nonresident visitors would pay approximately 12% of a typical, general sales tax in Montana.

Many people believe nonresidents should pay their fair share through a sales tax, but out-of-state business investors and second-home owners do pay a significant share of property taxes.

In 2025, out-of-state addresses made up 33.8% of the taxable value of Montana residential property. Some property taxes for education have a uniform rate statewide, and out-of-state addresses paid 33.8% of these. The level of most property taxes is set by local governments and school districts. Out-of-state addresses paid an average of 18.2% of local residential property taxes in 2025 although that figure varies widely across communities. Averaged across all state and local property taxes, the nonresident share of Montana residential property taxes is 22%, about twice as large as the estimated nonresident share of a general sales tax would be if adopted.

If a general sales tax is used to lower property taxes, the overall share of taxes paid by nonresidents could decrease – especially if sales tax revenue were used to offset statewide education property taxes that are a larger share of property tax bills in resort communities like Big Sky. In addition, some Montana retailers – like RV dealers, for example – that target out-of-state buyers are likely to object to the argument that the burden of a sales tax on nonresident purchases falls exclusively on the nonresidents themselves. Surveys of Montana tourists show that they are increasingly budget conscious, and a sales tax could result in them

purchasing less while they are here. (See industry forecast on page 33.)

Exporting taxes to nonresident tourists is not as simple as it appears. It requires a targeted approach to the application of the tax and the use of the revenue. (See page 20 for more about a targeted tourist tax.)

#### Equity and stability

Households and businesses have different circumstances and structures, and thus the burden of different types of taxes can vary widely. For instance, some households are wealthy in property but have modest incomes and relatively low consumption. This characterizes many senior households and long-time Montana residents who have seen their property values rise much faster than their incomes. Introducing a sales tax to lower property taxes would benefit these individuals and alleviate concerns that they are taxed out of their homes.

In contrast, there are other households with low property wealth and comparatively high incomes and spending. Examples of these types of households are renters and young families, and they would be more burdened by a shift toward sales tax and away from property taxes. Because of these different circumstances and how they can change across an individual's lifetime, it could be more equitable to use a variety of taxes to generate government revenue.

Using more taxes at lower rates can also reduce volatility in government revenue.

Sales taxes can be a good stabilizer as they fluctuate less in economic cycles than income taxes. Sales taxes can also be more stable and predictable for households than property taxes that can change quickly with market conditions.

### Tax can support economic growth

An argument for taxes on consumption, like sales taxes, is that it encourages saving and investment, which can boost productivity and long-term economic growth. While this is a strong argument for a national value-added or consumption tax, it is less convincing for state and local economies.

Economically efficient tax policy is often summarized as having low rates on a broad tax base. A broad array of taxes allows governments to keep tax rates relatively low across the board, and business and consumer decision making is less impacted by low tax rates. In contrast, systems that concentrate taxes with high rates on some activities while exempting others can result in distorted decisions driven by avoiding highly taxed activities rather than maximizing economic value.

### Online shopping

A sales tax would apply equally to the transactions by brick-and-mortar stores and online retailers. In contrast, Montana's current heavy reliance on property taxes is a major cost burden for traditional retailers that online sellers largely avoid. Thus, if a general sales tax were used to reduce property taxes, it would help Montana Main Street businesses compete with Amazon and other online sellers based outside the state.

## The case against a sales tax

### Burden for low-income households

A regressive tax is when low-income households pay a higher share of their incomes in taxes than higher income

households. Sales taxes are regressive because low-income households have low savings and spend more of their income on taxable goods. Higher-income households have higher savings rates, and more of their spending is on untaxed services and out-of-state travel, therefore, they would likely pay a lower share of their income in state and local sales taxes. The share of income paid in tax is one of the most common metrics to evaluate tax equity and fairness.

## Economically efficient tax policy is often summarized as having low rates on a broad tax base.

A 2025 report by the Minneapolis Federal Reserve, *Fiscal Productivity of the U.S. Federal and State Governments*, provides a detailed and current analysis of the regressivity of state taxes. The report confirms that the typical state sales tax is regressive, with households in the bottom 10% of the income distribution paying about 4.5% of their income in sales tax whereas households in the top decile of income pay about 1% of their income in sales tax. However, the report also finds state and local property taxes to be comparably regressive. Combining owners and renter households, the analysis finds the bottom 10% of the income distribution pay about 8% of their income in property taxes compared to the top 10% of households paying less than 2% of their income in property taxes. In 2025, Montana passed a law implementing tiered property tax rates by value, thus making Montana's property tax system more progressive than typical property tax systems that charge uniform rates across all values and types of real property.

Sales taxes can also be designed in ways to make them less regressive – primarily by exempting necessities for low-income households from the sales tax while expanding sales tax to services purchased more by high-income households. Tiered sales tax rates for certain big-ticket purchases like motor vehicles or rebates for low-income households could also be considered to make a sales tax less regressive.

### New tax will lead to government growth

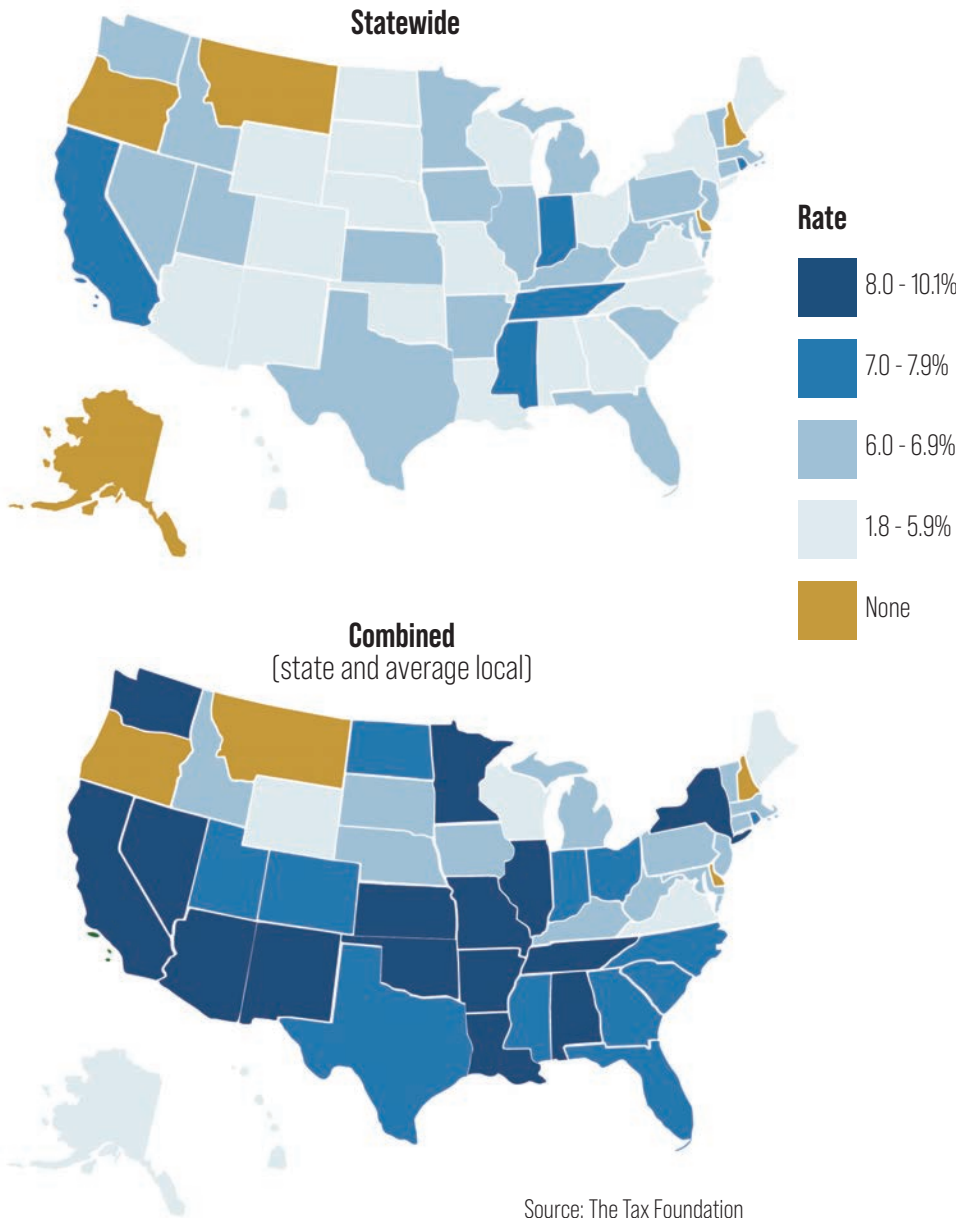
One argument against sales tax is that government will get bigger and less efficient if given more sources of tax revenue. However, there is no reason that having an additional tax revenue source would lead to higher government spending. Montana is a politically conservative state, and thus, most supporters of a statewide sales tax, and most previous proposals, would use sales tax revenue to reduce other taxes instead of expand government programs.

The data suggests that this argument is much stronger when it comes to income taxes than sales taxes. For example, the Minneapolis Fed study finds that nine of the 10 states with the lowest average tax burden do not have an income tax. These states also tend to have the most regressive tax systems. Sales taxes do not show a similar correlation. Montana and New Hampshire are states without sales tax and below-average overall tax burdens, whereas Oregon and Delaware have no sales tax, but still have above-average overall tax burdens.

## Conclusion

A review of the pros and cons of a sales tax from a Montana perspective does not yield a clear conclusion for or against. One important insight comes from when considering a common proposal of using sales tax revenue to reduce property taxes. Using a general sales tax to lower property

**FIGURE 1** Sales tax rates, July 2025



Using a general sales tax to lower property taxes would not increase tax revenue from nonresidents because of the large share of Montana property tax payments made by out-of-state addresses.

taxes would not increase tax revenue from nonresidents because of the large share of Montana property tax payments made by out-of-state addresses. In most states, sales and property taxes are similarly regressive, but Montana shifted to tiered property tax rates in 2025 that make property taxes less regressive. A sales tax could make the overall tax system more stable and equitable by diversifying sources of revenue and support business investment that might be discouraged by Montana’s property taxes.

A final question is: How much revenue could general a sales tax produce for Montana and how does it compare to other taxes? Montana’s constitution limits any statewide sales tax to a maximum of 4%. The Legislative Fiscal Division model estimates about \$1.3 billion in revenue from a 4% general sales tax that has a typical structure that exempts groceries, medicine, gasoline, and most services with the notable exception of restaurant meals. The Montana Department of Revenue recently estimated that revenue

could increase to between \$1.5 billion and \$1.7 billion annually if the hypothetical 4% sales tax were extended to more services. While this revenue would be substantial, it is significantly less than the nearly \$2.5 billion in total property taxes paid in Montana. ■

*Jeffrey Michael is director at the Bureau of Business and Economic Research at the University of Montana.*

# Exploring alternatives to a statewide general sales tax

By Jeffrey Michael

Some Montanans have expressed interest in more targeted or limited alternatives to a general statewide sales tax, including a focused tourism tax, or a local option sales tax, where cities or counties would be allowed to implement a sales tax in their community if local voters approve. While these options would generate less revenue than a general sales tax, they might be more popular and politically viable.

## Tourism Taxes

While tourism is a large part of Montana's economy, it is important to understand that Montana's visitors are not especially big spenders, with the notable exception of real estate – and the state has already adjusted property taxes to capture more from second-home owners. Montana's visitors are generally

motivated by scenery and outdoor recreation, often spending more time on highways and trails and comparatively less time in shopping centers and restaurants.

Montana had roughly 14 million nonresident visitors in 2024 who spent about \$5 billion in the state. Comparing this to other scenic states, Hawaii's 10 million visitors spent \$21 billion, Alaska's 3 million visitors spent \$3.9 billion, and Maine's 15 million visitors spent \$9 billion. Table 1 compares the distribution of Montana's tourism spending as estimated by the University of Montana Institute for Tourism and Recreation Research (ITRR) to average U.S. tourist spending.

Two substantial differences between Montana visitors and other American tourists stand out: 1) Montana visitors spend much more on vehicle fuel, and 2) Montana visitors spend much less on general retail shopping. The implication

of this data is that a general retail sales tax will not be as effective at generating revenue from tourists in Montana as in other states. In addition, it appears that Montana visitors purchased at least 300 million gallons of gasoline annually, which would be more than half of total gasoline purchases in the state. While it is difficult to calculate the exact share of gas taxes paid by nonresidents, the available data suggests that an increase to the state's gas tax, especially in the summer, could generate more revenue from tourists and would have a lesser impact on residents than a general sales tax.

Another observation from this data is that accommodations are the largest spending category, consistent with tourists in other areas, which is the reason accommodation taxes (called transient occupancy taxes in some places) are the most common type of tourist tax. Montana charges a total tax of 8% on lodging, and



**TABLE 1 Montana tourism spending versus U.S. tourism spending, 2024**

	Montana visitor spending (millions \$)	Montana visitor spending (% of total)	U.S. tourism spending (% of total, excluding airfare)
Accommodations	\$1,179	23.9%	23.5%
Gasoline	\$1,120	22.7%	12.4%
Restaurant and bar	\$ 837	17.0%	20.8%
Auto rental	\$ 183	3.7%	4.2%
Shopping	\$ 532	10.8%	22.5%
Entertainment and recreation	\$ 452	9.2%	9.0%
Groceries and other	\$ 630	12.8%	7.5%
<b>Total</b>	<b>\$ 4,933</b>		

Source: University of Montana Institute for Tourism and Recreation Research estimated based on data from the U.S. Bureau of Economic Analysis

a small number of resort communities have an additional resort tax of up to 4%. Some cities also assess a Tourism Business Improvement District (TBID) fee of up to \$4 per room night. According to global consulting firm HVS's 2024 lodging tax study, the average lodging tax rate across the 150 largest cities in the U.S. was 14.19%, with the lowest at 8% and the highest at 20.5%. Local lodging taxes make

up the majority of the total lodging tax in most parts of the U.S., but in Montana, only resort communities are authorized to have a local lodging tax.

The final key characteristic of Montana tourism spending is strong seasonality, with 48% of total spending occurring during the third quarter (July - September). The second quarter (April - June) is the second busiest at 24% of total spending, and this quarter is strongly skewed toward June, so that the four peak months from

June to September account for about 60% of nonresident visitor spending. While uncommon, a few areas have implemented or are considering seasonal tourist taxes. For example, South Dakota's 1.5% tourist tax and a few of Montana's resort communities are restricted to the peak summer season. Another state, Maine, is considering legislation that would raise its general sales and food and lodging taxes during the summer peak season. Montana could also consider a seasonal approach to sales or tourist taxes to reduce the burden on residents.



Courtesy of the  
U.S. National Park Service

While the desire of many cities in Montana to obtain a second major revenue stream is understandable, there are significant problems with using locally generated sales taxes to fund local government.



*Courtesy of Creative Commons / Tony Higsett*

### Local option sales taxes

Over the years, there have been many legislative proposals to allow cities and local governments in Montana to have the option to implement sales taxes at the local level. About three-fourths of states with sales taxes have local sales taxes in addition to state sales taxes. Alaska, for example, has no state sales tax but has a local sales tax in some communities. Local governments in Montana are dependent on property taxes, and a local option sales tax is seen as a way for them to diversify their revenue streams. The Montana League of Cities and Towns, an influential statewide organization, supports creating a local option sales tax as do elected officials in many of Montana's larger cities.

While the desire of many cities in Montana to obtain a second major revenue stream is understandable, there are significant problems with using locally generated sales taxes to fund local government. Among the most prominent criticisms, and one that is especially relevant to Montana, is the large variation in retail sales activity across communities. Rural areas of Montana have a very low retail sales tax base, and its residents travel to cities for most of their significant shopping. This creates inequity in revenue generation between rural areas and cities and can confer a significant advantage on the few cities that have attracted major destination retailers like Costco.

Other issues with local option sales taxes occur with different sales tax rates

across communities, with some areas not adopting a sales tax at all. This can motivate consumers to travel to avoid paying a sales tax in their community, especially for more expensive purchases like furniture, and can encourage retailers to locate in lower-tax areas.

Even if most areas have the same local sales tax rates, shifting a city's tax base from property taxes to sales tax as some property tax opponents in Montana have proposed can create a problem known as the "fiscalization of land use," or "fiscal zoning," where cities have a financial incentive to favor retail development over housing and industrial development. When housing and industry become financial losers for a community, cities sometimes respond with policies such as zoning, excessive impact fees, and efforts to attract retail spending from neighboring areas. Instead of focusing on efforts to attract industry and high-paying jobs and encourage housing that lifts regional prosperity and affordability, retail sales tax generators – which often create low-paying jobs – can become favored at the local level.

For these reasons, inequity between communities and negative fiscal incentives for local governments, many public finance experts believe sales taxes are best implemented at the state rather than local level. It should be noted that these standard criticisms are far less applicable to communities and activities in which most of the sales are generated by visitors

from outside the region. Thus, Montana's existing resort tax that is restricted to a strict definition of resort communities, as well as a more broadly applied local-option lodging tax, are examples of targeted local taxes that avoid the downsides of a more general local-option sales tax.

### Conclusion

Tourist taxes and local option sales taxes are often mentioned as more limited and focused alternatives to a general statewide sales tax. A review of the data and research on these proposals finds some challenges to effectively implementing these policies in Montana but also a few very focused alternatives that should be considered. Specifically, an increase to the gasoline tax and a local-option accommodation tax might be the best opportunity for Montana to increase tax revenue from nonresident visitors. A seasonal implementation of these taxes during the peak summer tourist season could also be considered to reduce their burden on Montana residents. ■

*Jeffrey Michael is director at the Bureau of Business and Economic Research at the University of Montana.*

# A history of Montana's political third rail

By Robert Story

At least one general sales tax bill has been requested in every legislative session since 1993.

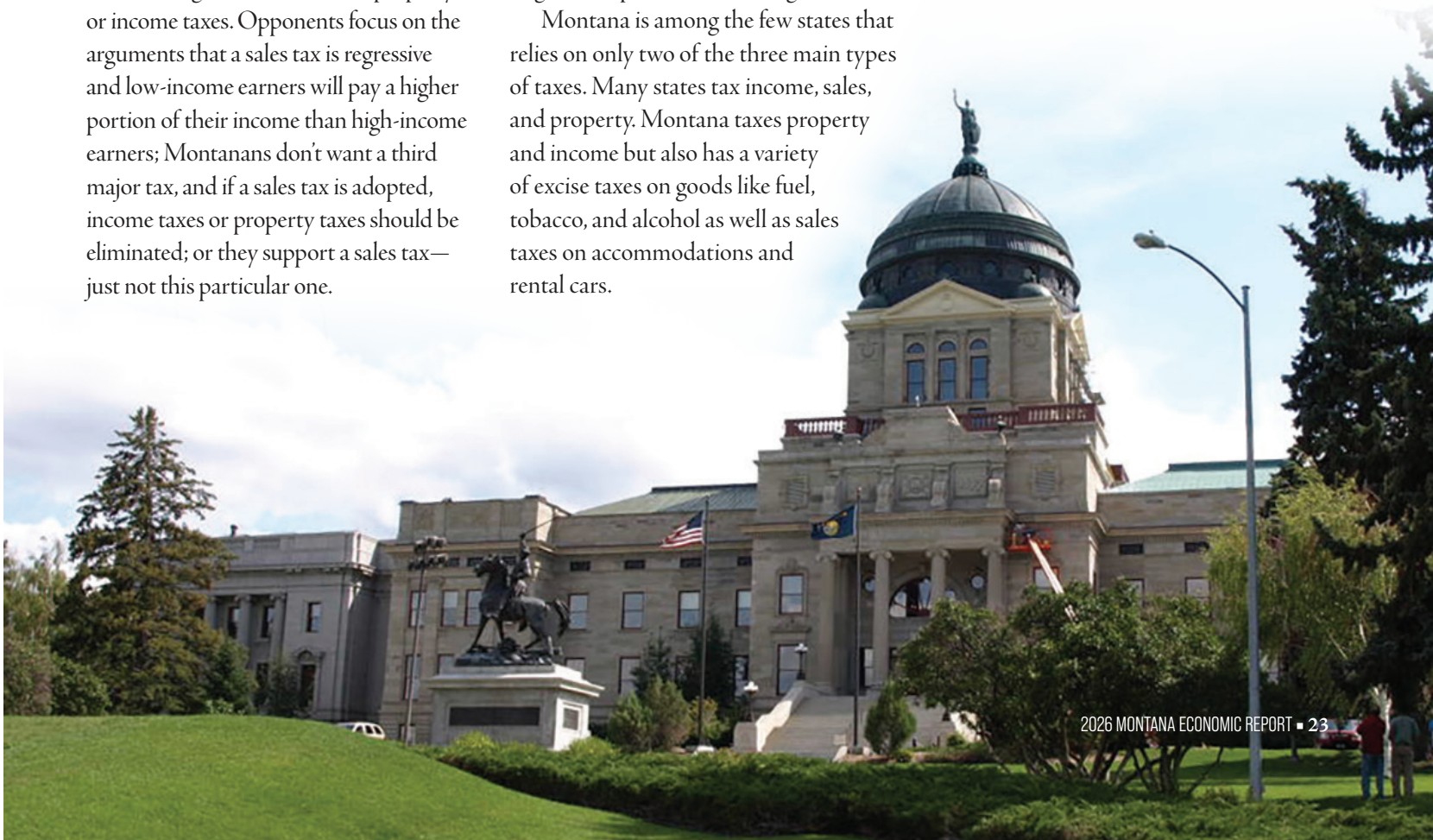
Groups and individuals in Montana have been contemplating a statewide sales tax for over 50 years.

Proponents of a sales tax base their support on a variety of benefits, including broadening the base of taxpayers, capturing revenue from tourists, matching Montana's tax system to the new economy, and relieving the tax burden on property or income taxes. Opponents focus on the arguments that a sales tax is regressive and low-income earners will pay a higher portion of their income than high-income earners; Montanans don't want a third major tax, and if a sales tax is adopted, income taxes or property taxes should be eliminated; or they support a sales tax—just not this particular one.

Another major roadblock to adopting a sales tax in Montana through legislation is the constitutional provision allowing citizens to petition to place any act of the Legislature before the voters for approval or rejection. This provision has caused the Legislature to refer proposed sales tax bills to the voters each time the Legislature passed sales tax legislation.

Montana is among the few states that relies on only two of the three main types of taxes. Many states tax income, sales, and property. Montana taxes property and income but also has a variety of excise taxes on goods like fuel, tobacco, and alcohol as well as sales taxes on accommodations and rental cars.

In Montana, property taxes fund local services such as schools, counties, cities, and a variety of districts that provide specific services. The state generates revenue from individual income taxes, corporate income taxes, and a multitude of other revenue streams including the above-mentioned sales taxes. Montana does allow limited sales taxes to be



**TABLE 1 Historic sales tax actions**

Year	Title	Subject	Action	Result
1971	R68	Sales tax	Referendum	Failed 2-1
1993	LR 111	Sales tax	Referendum	Failed 3-1
1994	CA 27	4% limit on sales tax	Referendum	Constitutional amendment passed
1999	SB 525	Sales tax	Senate Tax Committee	Failed
2003	SB 407	Tourism tax	Amended to Lodging and Rental Car Tax	Became law
2017	HB 260	Value-added tax	House floor vote	Failed 18-82

Source: Montana Taxpayers Association

implemented by resort communities with voter approval.

There have been two major efforts to install a statewide sales tax in Montana in the past half century. Both have been referred to a vote of the people and have been soundly rejected.

### The 1971 and 1993 sales tax votes

The first attempt at a statewide sales tax came about because of a special session of the Montana Legislature in 1971. The state was facing a financial shortfall and needed to raise revenue. Voters were given the option of approving a statewide sales tax or continuing an existing surcharge on individual income taxes. The sales tax (R 68) was placed before the voters in June of 1971. The sales tax proposal failed by a margin of two to one, and the income tax surcharge stayed in place.

It was not until 20 years later that the Legislature again placed a proposal for a sales tax before the voters. Interestingly, both candidates for governor in the 1992 election were amenable to considering a sales tax as a source of revenue for Montana.

In 1993, the Legislature was again facing financial challenges. Revenues from current sources were not projected to meet spending needs. Natural resource taxes were lagging. The state had also been sued by school districts claiming that its K-12 funding system did not provide for the

equitable funding of schools. The state lost that lawsuit and faced significant increases in support for the public school system. One of the ways the state addressed the requirement that it provide a more equitable funding formula was to increase property taxes. The Legislature increased current countywide property tax levies, transferred that revenue to the state, and created a new 40-mill statewide property tax levy. That revenue was used to pay the state share of an increased K-12 funding formula.

The 1993 Legislature also passed two pieces of legislation dealing with the sales tax. The first, Senate Bill 235, which became LR 111, created the sales tax and a plan to distribute the money. The second, Senate Bill 289, that became CA 27, created a constitutional amendment limiting a statewide general sales tax to no more than 4%.

LR 111 was a comprehensive sales tax proposal, it reduced individual income taxes and corporate income taxes, reduced property taxes, increased state funding for schools, and increased taxes on electrical energy. The complex legislation would have also provided low-income households and renters with a refundable income tax credit. The voter information packet describing the sales tax was over 30 pages long. The sales tax was expected to generate \$310 million.

The referendum, LR 111, was voted on in a special election in June of 1993. The measure was soundly rejected by a vote of 228,587 against and 78,349 supporting the measure – a 3 to 1 defeat.

In the regular election in November 1994, CA 27 appeared on the ballot. Since CA 27 was a constitutional amendment, it was required to be voted on in a general election. The voters approved of CA 27 by a narrow margin, 175,618 to 150,469. Montana now has a constitutional limit on a statewide general sales tax of 4%.

There have been no proposals concerning a sales tax placed before the voters since 1993. Discussion of the concept of a statewide sales tax since the 1992 election appears to be the “third rail” for politicians in statewide races. One of the first promises candidates often make is “I will not support a sales tax.”

### Sales tax proposals since 1993

At least one general sales tax bill has been requested in every legislative session since 1993. Few have even been introduced and almost none have even survived a legislative tax committee. In this author’s time in the Legislature, which began in 1995 and ended in 2010 (and as a lobbyist), public participation in sales tax hearings has changed dramatically. In the 1990s, if a sales tax bill was scheduled for hearing, the largest meeting room in the Capitol was needed and busloads of

opponents crowded the gallery to show their disapproval. By the early 2000s, sales tax bill hearings could be held in the smallest meeting room and generally two proponents and two opponents appeared. The bills then died.

The revenue component of the bills are fairly uniform, taxing goods and services commonly taxed in other states. The difference is in the use of the revenue.

The common proposed use of the sales tax revenue is to reduce property taxes by paying for all or a significant portion of K-12 school funding. Some proposals also target income tax reductions.

The last major consumption tax proposal HB 741 occurred in 2017. This proposal, while labeled a sales tax, resembled a Value Added Tax. It had a low rate of 2% but that tax rate applied to a multitude of transactions.

HB 741 was expected to generate \$1.1 billion in revenue. The revenue was directed to replacing all property taxes, reimbursing local governments for forgone revenue, and replacing all property tax funding of K-12 schools with state revenue.

Two new programs using 10% of the revenue would provide state funding for infrastructure for local governments and schools. The Legislature would direct where these funds were spent.

A new statewide property tax levy was included that applied only to centrally assessed properties. It would generate about \$450 million per year.

A different approach to a consumption tax passed the 2003 Legislature. Governor Judy Martz's administration wanted to reduce Montana's top income tax rate, which was one of the highest in the country at 11.9%. To replace revenue, a working group was tasked with developing a statewide tourism tax. The group's proposal taxed restaurants, bars, hotels and motels, rental cars, businesses that provided recreational services, and certain goods that tourists tended to purchase. Shortly after the task force

proposal, Senate Bill 407, was heard in committee. All businesses were removed from the bill except for rental cars and accommodations. Thus, Montana does have a statewide sales tax, but it is limited to two types of businesses.

### Looking to the Future

The sales tax discussion will likely not go away. Montanans are perplexed with the ever-increasing property taxes. Montana's economy is changing, and the legacy taxpayers in the natural resource industries and manufacturing are no longer footing a significant portion of the property tax bill. Mainstreet businesses are disappearing as internet sales capture their customers.

Proponents of a sales tax still believe that the failure to move to a consumption tax will continue to speed the disappearance of main street businesses and shift more property tax burden onto Montana homeowners.

Polling data shows Montanans still oppose a sales tax. Their opposition appears to decrease if the revenue is devoted to property tax relief.

Additionally, Montana's population is changing. More citizens are moving here from states that have sales taxes. A question that needs to be asked is: if these new residents believe their property taxes are burdensome, would they be willing to go back to paying a sales tax if it reduces their property taxes?

Another point to ponder is what additional constitutional guarantees for tax trade-offs might voters need for them to consider supporting a sales tax.

At this point, it appears that Montanans, while being upset with the current tax mix, might rather deal with "the devil they know" than face one they don't know. ■

*Robert Story is executive director of the Montana Taxpayers Association and former state legislator.*

Montanans don't want a third major tax, and if a sales tax is adopted, income taxes or property taxes should be eliminated; or they support a sales tax—just not this particular one.

# COMING SOON

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# Farming and ranching

## Crop producers struggle, cattle prices at record highs

By Joel Schumacher

Revenues from Montana agriculture are historically roughly split between livestock and crops sales. Livestock and crop markets had very different storylines in 2025.

Montana producers were able to secure the highest prices in decades for the 2025 calf crop. There are number of supply side factors that contributed to the high prices. Both U.S. and Montana cattle inventory numbers are at historically low levels, which limits the supply of slaughter-ready cattle. Rebuilding the cattle herd will likely be slow due to reproductive limitations of cattle (one calf per year) and the financial incentives (created by high prices) for ranchers to sell female calves to feedlots and not retain them to increase their breeding herds. Imports of live cattle were down roughly 50% for the first seven months of 2025. This decline is due to impacts of animal safety protocols put in place to prevent the spread of the New World Screw Worm (which has been detected in some Mexican



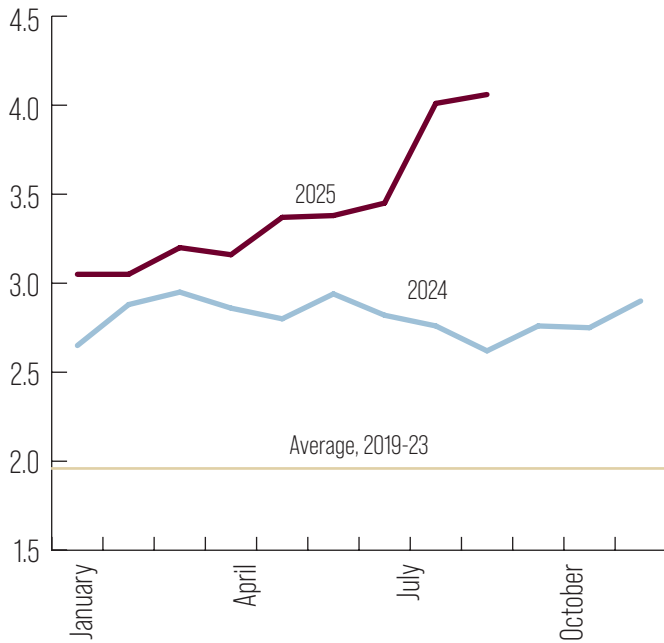
*Courtesy of USDA Natural Resources and Conservation Service*

cattle) to U.S. cattle and U.S. trade policy changes. Feedlots are responding to the limited availability of cattle by keeping them in feedlots longer and thus increasing carcass weights. Imports of beef are up 23% through July. Beef imports are often lean trimmings, which are blended with fatter cuts of U.S. beef to supply ground

beef with the fat content that American consumers are accustomed to purchasing. Uncertainty around tariffs, quotas, and animal health protocols have created volatility in markets.

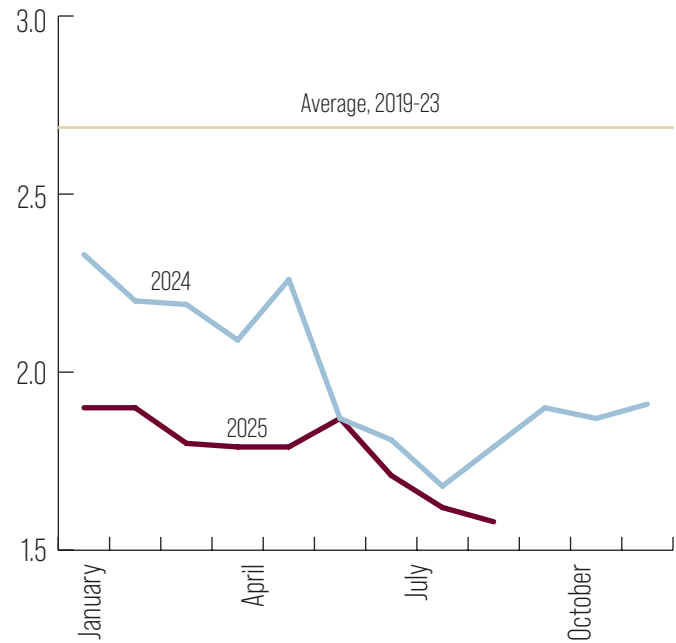
Montana's primary crops (wheat, barley, and pulses) did not enjoy the same strong prices as in the cattle

**FIGURE 1** Montana steer prices



Source: USDA

**FIGURE 2** Hard red spring wheat prices



Source: USDA

Legislation will be needed to clarify farm policy for 2026 and beyond.

markets. Global wheat production has been strong, putting downward pressure on prices. In Montana, wheat production increased by approximately 4.5% over 2024. Rain at or near harvest time reduced the quality of crops in parts of Montana, thus reduced their value. Changes in U.S. trade policy have created uncertainty and increased barriers to international markets. Input costs for farmers, which rose over the past few years, have remained at elevated levels. Estimates of the cost of producing many of these crops suggest that the final crop was worth less than the cost of producing it. Some farmers use futures markets to lock in prices for a portion of their crops in advance of harvest, others will sell their crops near harvest time, and others still will store grain for months or even years before marketing their crops. The prices realized by farmers for their crop can vary depending on their marketing strategy. Regardless of their marketing strategy,

it was a challenging year financially for many crop producers in 2025.

#### Looking ahead

Looking forward, agricultural policies are determined by the farm bill, which is a piece of federal legislation that funds and provides direction for the next five years. In a break from tradition, some components of the farm bill were included in the July budget bill while others were not addressed. A separate piece of legislation or an extension of the current legislation will be needed to clarify farm policy for 2026 and beyond. ■

*Joel Schumacher is an associate extension specialist in the Department of Agricultural Economics and Economics at Montana State University.*

## Forest products

### Federal harvest targets offer upside, though workforce, mills and markets will shape outcomes

By Samuel Scott

As we flip the calendar to 2026, Montana's forest products industry sits at a crossroads of uncertainty and opportunity. Table 1 provides a snapshot of the sector in 2025. While final harvest numbers are not yet available, current estimates indicate a 12% decline in statewide timber harvest between 2024 and 2025, with decreases occurring across all ownerships. Harvest from private lands has continued its multiyear downward trend, and state lands saw a slight reduction as well. On the U.S. Forest Service side, timber harvest fell approximately 7% in 2025 to about 154 MMBF Scribner, including volume reported under Good Neighbor Authority management. Several pending policy changes, however, may influence 2026 outcomes.

A White House executive order and accompanying agency memo issued in March 2025 calls for a 25% increase in national forest timber harvest over the next four to five years. Nationally, this

**TABLE 1** Montana at a glance

	2005	2015	2024	2025*
Timber harvest (MMBF-Scribner)	653	406	298	263
Lumber Production (MMBF-LT)	1,001	535	314	300
Private sector workers (count)	9,845	7,370	7,934	7,649
Private sector income (millions, 2025)	\$580	\$396	\$465	\$456
Earnings per worker (2025)	\$58,865	\$53,733	\$58,604	\$59,573

\*2025 estimated using trends through Q3. Sources: UM Bureau of Business and Economic Research; U.S. Forest Service; U.S. Bureau of Land Management; Montana Department of Natural Resources; U.S. Bureau of Labor Statistics; and U.S. Bureau of Economic Analysis

proposal would likely have a minimal effect on total harvest, lumber production, or broader economic activity. For regions like Montana—where roughly half of the timber originates on national forest lands—the implications could be more meaningful. A 25% increase in federal harvest could translate into a 10–15% boost in statewide volume. A BBER analysis of mill capacity across 12 western states suggests the

industry could absorb the proposed increase, though several important constraints remain.

#### Constraints on expanded harvest

Supply-side bottlenecks, including labor shortages and high housing costs, will continue to limit growth. Expanding timber harvest would require additional in-woods and in-mill labor, which has

Montana's forest sector is entering 2026 with more questions than answers, but also with room for strategic adaptation.

**TABLE 2 United States - Canada lumber trade flow, Softwood lumber (MMBF-LT)**

	2024	2025*
<b>Production</b> - United States west and south	35,115	34,000
- Canada	20,299	19,800
<b>Imports</b> - Canada to United States	11,927	11,300
- Total to United States	13,989	13,900

\*2025 estimated using trends through Q3. Sources: RISI Random Lengths; Western Wood Products Association; Statistics Canada; and Southern Forest Products Association

proven difficult to secure across the West. Reduced mill infrastructure in certain regions, including Montana, also poses challenges, as longer haul distances increase costs and erode competitiveness. In addition, an executive order alone may not provide mills and contractors with the long-term certainty needed to justify significant investment. Finally, continued volatility in the housing market may keep wood products demand—and prices—subdued.

**Trade policy and market uncertainty**

Tariff policy remains another wildcard. A combination of softwood lumber and broader trade-related tariffs has been proposed and implemented to bolster domestic demand by raising the cost of Canadian lumber. It is still too early to tell whether these measures will meaningfully shift trade flows or market behavior (Table 2) but import volumes and lumber prices will be important indicators to watch throughout 2026.

**Residual Markets and Mill Infrastructure**

Meanwhile, low lumber prices and rising production costs continue to pressure mills. The closure of Roseburg Forest Products' particleboard facility last year has affected nearly every mill in the state by reducing outlets for residuals. The former mill site in north Missoula has since been purchased and is being redeveloped into a movie

studio, manufacturing hub, and housing complex. Elsewhere in Missoula County, the former Pyramid Mountain Lumber site remains vacant, though discussions continue regarding the potential for a new mill in the coming years.

**Outlook for 2026**

Montana's forest sector is entering 2026 with more questions than answers, but also with room for strategic adaptation. The speed at which policy, markets, and infrastructure can realign to dynamic conditions will determine whether this year brings renewed momentum or continued headwinds. ■

*Samuel Scott is a forest economist at the Forest Industry Research Program in the Bureau of Business and Economic Research at The University of Montana.*

# Manufacturing

## Montana manufacturers face economic pressures and trade uncertainty

By Derek Sheehan

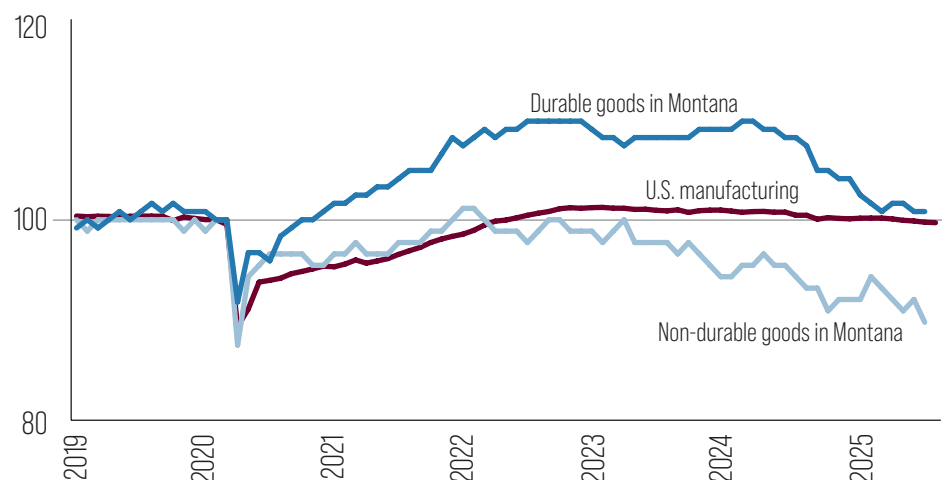
Montana manufacturers in 2025 grappled with the economic pressures of elevated input costs, persistent workforce challenges, and trade uncertainty. These forces are reshaping the sector, creating ongoing challenges for manufacturers throughout the state.

### The inflation reality

Input prices tell a clear story. Except for petroleum and coal products manufacturing, with a producer price index that sits just 5% above August 2018 levels, Montana's main manufacturing sectors face substantially higher input costs. Producer prices across key sectors have climbed 20% to 48% compared to seven years ago, with fabricated metal products, wood and lumber, and food manufacturing experiencing the largest increases, according to Bureau of Labor Statistics data.

These cost pressures affect Montana manufacturers' bottom lines each month. While the rate of inflation has slowed, prices remain elevated. Manufacturers face higher costs just as consumers continue to pay more than they did at the grocery store. Unlike the pandemic period, manufacturers now face

**FIGURE 1** Manufacturing employment index, Montana durable and non-durable goods versus U.S. total manufacturing, seasonally adjusted (February 2020 = 100)



Source: US. Bureau of Labor Statistics, State and Metro Area Employment, Hours, Current Employment Statistics, Dec 4, 2025

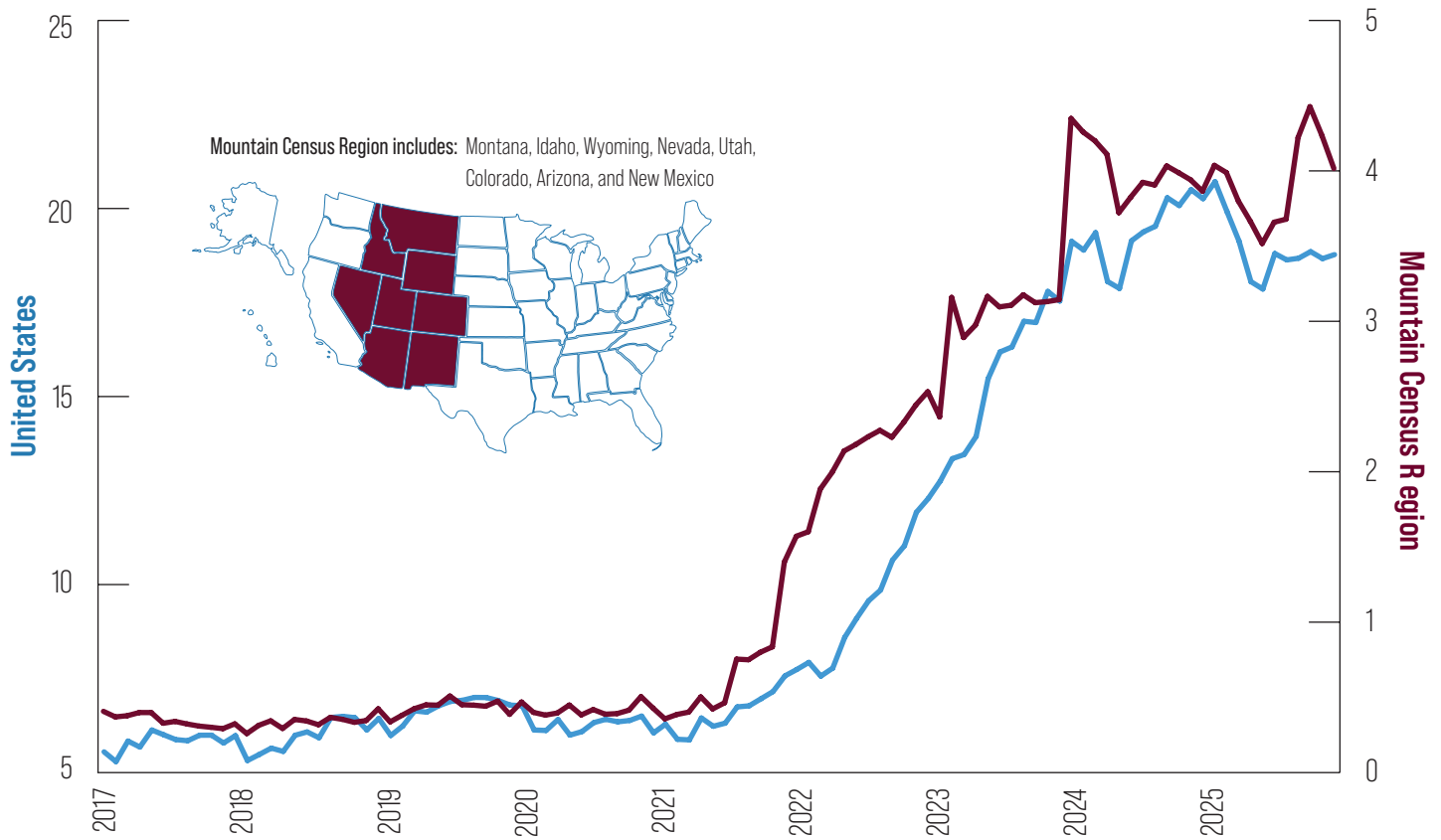
these costs without a demand boost to help absorb them. Instead, consumers are already stretched by persistent service inflation, leaving manufacturers with less room to raise prices.

### The persistent workforce challenge

Employee retention and workforce skills remain a challenge. Workforce issues have been cited by a majority of Montana's manufacturers for much of the past decade. Montana's manufacturing employment grew

strongly following the pandemic, outpacing the national recovery. Since August 2022, however, employment change represents a realignment with broader national trends. Non-durable manufacturing (goods that are consumed quickly, like food, beverages, and fuel) has lost roughly 1,100 jobs while durable goods (products like cars, large appliances, electronics, and furniture) shed approximately 800 positions, about half those losses concentrated in wood products manufacturing.

**FIGURE 1** Value of private manufacturing construction, billions of dollars



Source: U.S. Census Bureau, Construction Spending, November 17, 2025

**Economic uncertainty**

Trade uncertainty adds another challenge for Montana manufacturers. According to BBER’s 2025 Montana manufacturing survey, 53% of durable goods manufacturers and 74% of non-durable manufacturers rely on imported inputs. Manufacturers face narrowing margins with constrained options: absorb the costs and reduce profitability or raise prices in markets where customers may look elsewhere.

The long-term response requires substantial capital investment, developing domestic supply chains, and deploying automation technologies to maintain competitive pricing. These transitions take time, especially for industries with complex supply chains like computer and electronic products, aerospace, and agricultural machinery. Yet manufacturing construction data suggests manufacturers are hesitating

– construction spending in the Mountain Region and nationally has been flat or declining for much of the last year.

Montana’s manufacturing sector demonstrated exceptional resilience during and directly after the pandemic. The Federal Reserve’s recent 0.25 percentage point rate cut offers meaningful relief for the state’s manufacturers that are more interest-rate sensitive than their national counterparts. The investment environment going forward will be dictated by the pace of additional Fed rate adjustments and the structure of any tariff-relief mechanisms for affected industries, and consumers. At the time of this writing, tariffs themselves are in question as the Supreme Court has not yet ruled on presidential tariff authority. The specifics of these outcomes will map the investment and trade environment that the state’s manufacturers must navigate.

Regardless of how these conditions evolve, manufacturing construction investment will be a key indicator of the sector’s ability to adapt. With many Montana manufacturers serving regional or domestic markets rather than export markets, maintaining competitiveness means finding ways to offset high input costs and workforce challenges through capital and labor productivity improvements. Whether manufacturers can successfully navigate this environment will depend largely on their capacity to invest in new facilities, equipment, and technologies that truly make more with less labor. ■

*Derek Sheehan is an economist at the Bureau of Business and Economic Research at the University of Montana.*

# Travel, tourism and recreation

## A steady year amid shifting trends

By Melissa Weddell and Kara Grau

Montana's tourism sector showed resilience in 2025, continuing a decade-long trajectory of gradual growth. This period has been defined by a pandemic-induced downturn, followed by a rapid recovery and record-breaking visitation in 2024 and 2025, signaling what could be a new era of heightened demand. The 2025 data paint a picture of stability rather than a surge. Lodging tax collections, airport arrivals, and visits to Glacier and Yellowstone National Parks have all posted modest increases. Domestic travel remained strong overall, but the story is uneven: gateway communities near national parks continue to maintain steady visitation, while other areas have seen declines.

The most significant headwinds come from international travel. Canadian border crossings were down 17% year-to-date (as of November 2025) and nearly 24% in the third quarter of 2025. Several ports report steep drops, driven by reduced operating hours, geographic isolation, and lower



*Courtesy of Montana Department of Commerce*

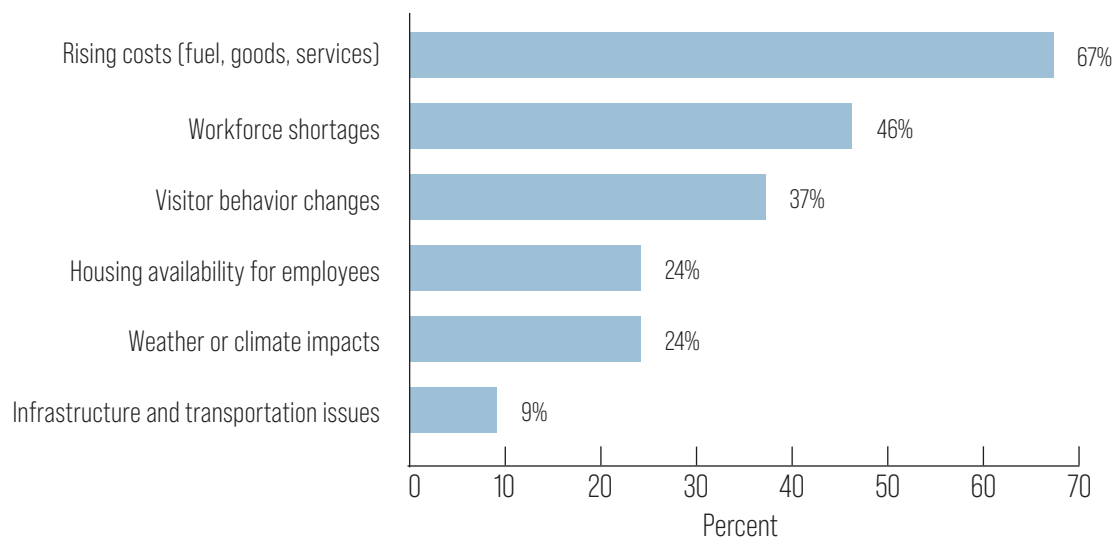
commercial and agricultural traffic. These trends mirror broader global shifts, including economic caution, evolving traveler preferences, and changing patterns in international visitation.

A recent survey by the Institute for Tourism and Recreation Research

of more than 100 tourism-related businesses—including lodging providers, restaurants, outdoor retailers, outfitters and guides, tour operators, and casinos—reveals a noticeable cooling in visitor activity and business confidence heading into 2026. Only 31% of businesses reported increased

## FIGURE 1 What were your biggest operational challenges in 2025?

[Respondents selected all that applied]



Source: University of Montana Institute for Tourism and Recreation Research

visitor volume in 2025 compared to 43% in 2024, while those experiencing declines rose sharply from 27% to 44%. Fewer businesses maintained stable visitor numbers as well, suggesting growing variability in demand. This shift in actual performance is echoed in the business outlook: although 81% expect customer volume to increase or remain steady in 2025, this marks a decline from 87% last year, with 44% anticipating no change at all. Taken together, these findings point to a softening tourism outlook, marked by tempered optimism and expectations of stabilization rather than continued rapid growth.

Tourism businesses in the survey reported a mix of shifting visitor patterns and persistent operational pressures. Many reported fewer international and Canadian travelers, more local or regional visitors, and increasingly budget-conscious behavior, with some noting older, more affluent visitors or a rise in group travel and demand for personalized experiences. These changes contributed to broader challenges captured in the survey: 67% of operators cited rising costs for fuel, goods,

Growth opportunities also stem from major regional developments, upcoming historic anniversaries, and travelers seeking authentic, high-quality experiences closer to home.

and services as their biggest operational hurdle, followed by workforce shortages (46%), visitor behavior changes (37%), and employee housing constraints (24%). Additional pressures included weather and climate impacts (24%) and infrastructure or transportation issues (9%). Together, these trends show that businesses are navigating both evolving traveler expectations and structural strains that affect day-to-day operations.

### The sales tax debate

As property taxes climb and economic pressures intensify, the statewide sales tax has resurfaced as a major topic of debate in Montana.

While the state has no general sales tax, it does impose taxes specifically on overnight lodging: a 4% Lodging Facility Use Tax established in 1987 and a 4% Lodging Sales Tax enacted in 2003 and updated in 2019. Together, these create an 8% statewide tax on lodging. Additionally, 10 communities have adopted local resort taxes, typically 1% to 3%, that apply to lodging, dining, bars, and certain retail sales in high-visitor areas. These local and statewide lodging taxes help support tourism promotion, infrastructure, emergency services, public facilities, and other community needs in destinations most impacted by visitor use.

Survey responses reveal mixed feelings among Montana's tourism businesses when asked about a potential statewide sales tax. Many see benefits, such as capturing more revenue from visitors and easing property tax pressure, while others raise concerns about regressive impacts on low-income residents, added burdens on small businesses, and uncertainty over how new revenue would be allocated. Local

option, or targeted taxes, emerged as preferred alternatives, with respondents emphasizing the need for transparent revenue use and clear communication from government. When it comes to tourism impacts if a statewide sales tax were implemented, opinions were sharply divided: 45% expected a negative effect, 44% anticipated no impact, and 10% believed it would be positive. Those expecting downsides cite reduced spending or shorter trips among budget-conscious travelers and possible declines among visitors who currently come to Montana to avoid sales tax. While others argue most travelers are accustomed to sales taxes elsewhere and would continue visiting regardless. Respondents agreed that the ultimate impact would hinge on the tax rate and how it aligns with existing lodging, resort, and local taxes. Overall, businesses emphasized careful policy design and transparent revenue use would be necessary if implemented.

### 2026 Outlook

The year ahead looks cautiously optimistic for Montana's tourism industry but tempered by signs of a softening market as economic conditions tighten. Rising costs, inflation, and shifting traveler spending patterns present challenges, compounded by declines in international and Canadian visitation. Additional uncertainty, ranging from federal policy changes and potential government shutdowns to pressures on public lands and environmental threats such as wildfire, drought, and climate disruptions, adds further volatility. Local challenges, including workforce shortages, limited housing, aging infrastructure, increasing competition, and constrained marketing resources, continue to affect business resilience. At the same time, demand for Montana's core strengths remains strong. Steady



*Courtesy of Montana Department of Commerce*

domestic travel, solid lodging tax performance, and continued interest in outdoor recreation, agritourism, and national park experiences provide ongoing stability. Growth opportunities also stem from major regional developments, upcoming historic anniversaries, and travelers seeking authentic, high-quality experiences closer to home. Overall, 2026 will be a year of modest, uneven growth, with domestic travelers helping stabilize the market, while performance will vary by

destination type, pricing, and the ability of communities and businesses to adapt to shifting travel behaviors. ■

*Melissa Weddell is director and research faculty at the Institute for Tourism and Recreation Research at the University of Montana.*

*Kara Grau also works at ITRR as assistant director of economic analysis.*

# Real estate and construction

## Cooler weather continues

By Derek Sheehan

Montana's housing market has shown few signs of thawing. The number of homes sold has remained essentially flat year-over-year since 2023. Despite mortgage rates declining slightly after peaking above 7% in early 2025 and settling into the low 6% range, this modest improvement has not been enough to bring buyers back to the market. Metrics like median days on market are gradually creeping upward, signaling persistent hesitation on both sides of the market.

To understand the current environment, it helps to look at Montana's historical price growth. From 2013 to 2020, home prices in Montana rose about 5% year over year. The pandemic, however, revealed underlying supply pressures in many Montana markets. Different parts of the state experienced upwards of 75% home price appreciation from mid-2020 to mid-2022. Under more normal interest rates and net migration, the market returned to that 5% annual price growth



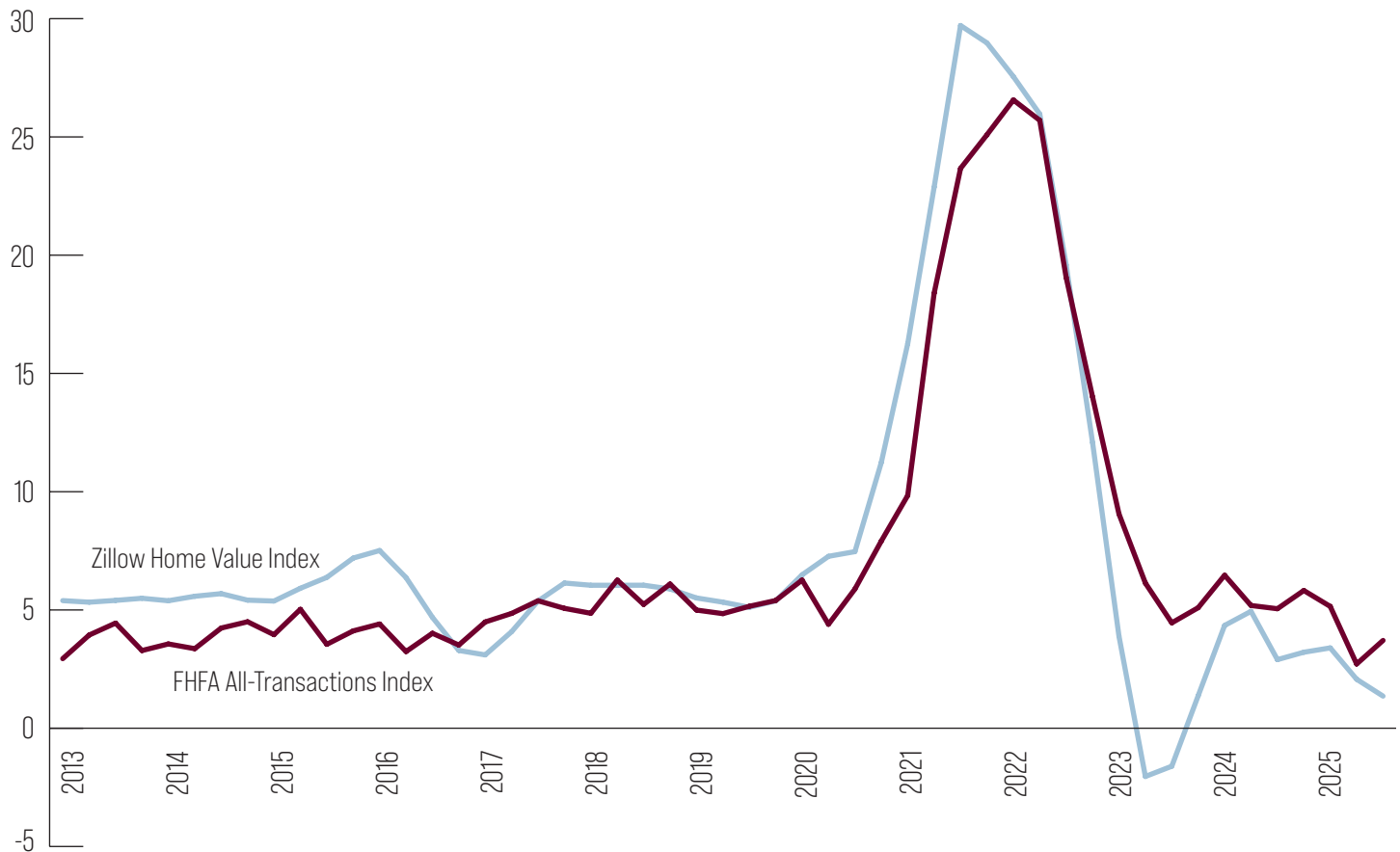
*Courtesy of the USDA Natural Resource Conservation Service*

in 2024. However, 2025 has seen further cooling—both the Zillow and FHFA home price indexes show statewide appreciation edging slightly below the historical range, approaching zero.

When statewide appreciation approaches zero, some markets must be experiencing outright price declines. That's exactly what Montana's regional

data reveals. Price appreciation has slowed substantially in the state's hottest markets like Kalispell and Whitefish, while more affordable markets like Helena, Butte, and Great Falls are experiencing similar cooling. Bozeman's single-family market saw year-over-year price declines last year, with Missoula and Hamilton likely to join the downward-price correction club.

**FIGURE 1** Montana home price appreciation, percent change year-over-year



Sources: U.S. Federal Housing Finance Agency, All-Transactions House Price Index; Zillow, Home Value Index (ZHVI), accessed via FRED, Federal Reserve Bank of St. Louis

The rental market has seen vacancies tick upward from a historically tight 2.5% in late 2022 to 4.3% in 2025, offering some breathing room for Montana’s renters. This improvement stems from multifamily construction in 2021-2022. Markets like Kalispell and Bozeman have seen rents stabilize, while others like Missoula and Great Falls have returned to more normal 2-4% annual increases rather than the 15-30% experienced during the pandemic, reflecting a similar return to normal seen in Figure 1.

#### Looking forward

The 2026 story will be shaped by three forces: regional price corrections, construction trends, and property tax shifts. To capture statewide construction beyond traditional building permits, BBER compiles and

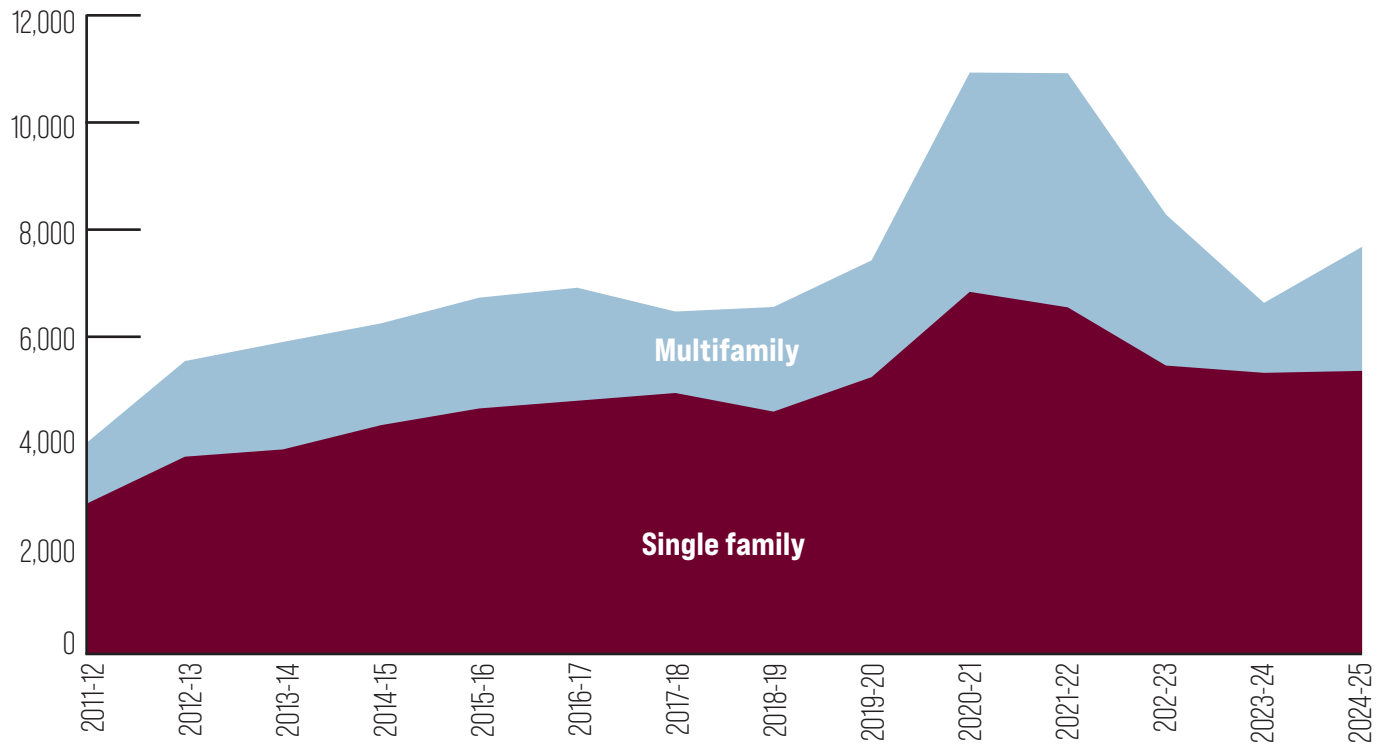
geocodes electrical permit data from the Montana Department of Labor and Industry (Figure 2). This reveals construction across all jurisdictions and unincorporated areas that do not require building permits.

While construction has moderated from pandemic-era peaks, both single-family and multifamily permitted units remain 10-15% above pre-pandemic baselines. Multifamily construction dropped sharply in 2023-2024 but rebounded in the year ending August 2025. Whether this signals a sustained pivot toward density or simply a temporary recovery will be critical for long-term rental affordability as population growth resumes.

Also shaping the supply picture are substantial property tax shifts from House Bill 231 and Senate Bill 542. Second

**Price appreciation has slowed substantially in the state’s hottest markets like Kalispell and Whitefish, while more affordable markets like Helena, Butte, and Great Falls are experiencing similar cooling.**

**FIGURE 1** Permitted residential units by type, annual totals ending in August



Source: U.S. Census Building Permits Survey, Montana Department of Labor and Industry electrical permits, Montana State Library addresses, Google API, BBER geocoding and analysis

As Montana's baby boomers age, homes will come available as they downsize or exit the market.

homeowners and short-term rental owners face property tax increases, with early Montana Department of Revenue projections in May 2025 estimating an average 68% rise over the two years. Higher-amenity areas like Whitefish, Big Sky, and the Flathead Valley would be expected to see the most impact as second-home owners reassess their investments, potentially converting properties from seasonal to year-round use or putting them on the market.

Demographic shifts add another layer of uncertainty. As Montana's baby boomers age, homes will come available as they downsize or exit the market. In warm markets like Bozeman and Missoula, this may simply slow price growth. In cold and cool markets, these homes become vacancies.

Together, these forces paint a complex picture for 2026. The cool

weather of 2025 has brought Montana's housing market closer to historical norms, but challenges remain. While regional price corrections, property tax changes, and demographic transitions may provide relief, Montana's housing affordability ultimately depends on one factor—building enough units to meet the demand of its current and future residents. ■

*Derek Sheehan is an economist at the Bureau of Business and Economic Research at the University of Montana.*



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