State of Montana

Labor Day Report 2014

Montana Department of
LABOR & INDUSTRY

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A Message from Commissioner Bucy

Governor Steve Bullock,

As the Montana's Labor Commissioner, I am honored to present the 2014 Labor Day Report to you and the people of Montana. It has been a pleasure and a privilege to work with the Bullock administration to expand business and job opportunities, prepare our workforce to succeed in Montana's booming economy, and lay the groundwork for economic prosperity and growth for many years to come.

At 4.6%, Montana's unemployment rate is 11th lowest in the nation—a rate that is well within normal ranges. Montana workers have opportunities for growth and professional development, and Montana employers are benefiting from Montana's incredible human capital resources.

Since the start of 2014, Montana added over 12,000 jobs, putting us on pace for a record-breaking year for employment growth. Montana's economy is on the move, and your administration's dedication to education and training will meet employers' growing demands for high-skilled and productive workers.

Increased job opportunities have also driven wage growth, and Montana's personal income growth has outpaced the U.S. over the last five years. It truly is a great time to live, work, and raise a family under Montana's big sky.

While Montana's economic prospects are bright, challenges remain. Through continued partnerships with the private sector and Montana's training and education community, we can better prepare the workforce of tomorrow, today. On-the-job training opportunities, such as Registered Apprenticeship, allow Montana workers to earn wages while they learn valuable skills needed by employers in their home communities.

Through the Main Street Montana Project, Montanans from every county and every industry sector have rolled up their sleeves to develop a business plan for our state. I am proud to lead an incredible team of public servants at the Montana Department of Labor and Industry, and we have heard Montana's call for greater focus on workforce development in the Main Street Montana Project. Working together, we will foster growth and opportunities for workers and businesses today, tomorrow, and for many generations to come.

Sincerely,

Pam Bucy

Pam Bucy
Montana Labor Commissioner

Executive Summary

On Labor Day 2014, Montanans are enjoying prosperity, with several years of job growth placing us at record employment levels and ideal unemployment rates. Montana is among the leading states in the nation for a number of economic indicators, including personal income, GDP, job growth, wage growth, business startups, and educational attainment.

Some economic highlights include:

- Montana's unemployment rate is at 4.6%, the 11th lowest unemployment rate in the nation and well within normal ranges. Montana's unemployment rate has decreased steadily since 2010.
- Montana's total employment growth was 1.7% in 2013 (7,880 jobs), making Montana the 5th fastest state for employment growth in the nation. Although employment growth was slow exiting the recession, employment growth since 2012 has been above average. Private payroll businesses added 6,753 jobs for a growth rate of 1.9%.
- Montana recovered all of the jobs lost during the recession earlier than the U.S. Montana recovered its pre-recession jobs peak for payroll jobs in February 2013, and for total employment in February 2014. The U.S. regained its payroll job losses in May 2014, but has not yet regained peak employment for total jobs.
- Most jobs being added in Montana during the recovery appear to be full-time, as the average hours of work has been increasing in Montana. Multiple jobholding in Montana is on the decline.
- Montana's labor force is now 1.7% above the pre-recession peak (compared to 1.1% higher for employment). In contrast, the U.S. labor force is growing more slowly, and is less than 1% above the pre-recession peak.
- Preliminary employment estimates suggest that Montana has added over 12,000 jobs in the first half of 2014, which puts Montana on pace for a record-breaking year for employment growth.
- Unemployed workers are experiencing shorter unemployment periods, a sign of more job opportunities and a stronger labor market. Workers receiving UI benefits in the first six months of the year received benefits for 17.1 weeks on average in 2014 compared to 17.5 weeks in 2013.
- Overall, Montana's personal income growth has outpaced the U.S. over the last five years. Montana had the 13th fastest personal income growth among states over the last year, and had the 6th fastest personal income growth among states over the last five years.

- Montana's GDP expanded by 4.5% in 2013, ranking Montana as the 13th fastest growing state. Montana also has the 8th fastest growing GDP among states for both the five-year and ten-year timeframes. Real GDP increased by 3% in Montana over the year compared to 1.8% nationally.
- All Montana's industries have added jobs over the last year except government. Health care and leisure activities have added the most jobs since 2010. Montana's largest industry depends on the metric used for measuring. Financial Activities is the largest for GDP, health care is the largest if using personal income or employment metrics.
- Montana ranks 12th among states for the highest rate of net business openings, and 4th in the nation for the percent of households that own a business, suggesting that Montana is continuing to be a good place for entrepreneurs.
- New businesses are an important source of job creation. New businesses started in the last five years have added nearly 60,000 net jobs to the Montana economy, a critical component to Montana's job recovery. Montana entrepreneurs are adding jobs and adding value to Montana's economy.

Nationally, concerns have been raised about the quality of jobs added during the recovery, with elevated levels of part-time work instead of full-time, and national wage growth at low levels. Job quality concerns are an important consideration for our economy and future prosperity, but low-quality work is of greater concern nationally than in Montana. Montana's wages are growing in both nominal and real terms, and the average hours worked is increasing (suggesting full-time jobs are being added):

- Montana's average wage growth has been outpacing the national average and most other states. In fact, Montana ranks 5th in terms of average annual wage growth over the last ten years. Wage growth has been driven by the private sector, which had the second fastest growth in the nation in 2012 with a 4.3% increase over the year.
- Mining pays the highest average annual wage to workers, and most of Montana's industries have average salaries of over $40,000 per year. The average annual wage in Montana is $37,575, lower than most industries because of the large number of Montana workers in the lower-paying trade and leisure activities sectors.
- Although Montana's average annual wage has increased by $4,250 in the five years since 2008, wage growth has been significantly faster in the Eastern portion of Montana. Wages over the last five years have increased at a similar pace in three regions – by $3,030 in the Northwest region, $3,150 in the North Central Region, and $3,700 in the Southwest. The South

Central and Eastern regions have had much faster growth, increasing their average wage over the past five years by $5,460 and $8,280 respectively.

The 2007 recession and recovery had very disparate impacts in different regions of Montana. The Northwest and Southwest regions were the hardest hit by recessionary job losses, while Eastern Montana had very little job loss during the recession, and very rapid job growth exiting the recession. The Southwest has also had strong job growth in the recovery, leaving only the Northwest still struggling from the effects of the recession:

- Unemployment in the Northwest and North Central regions remain above normal levels, with unemployment at 7.4% and 5.7% respectively. The Southwest has posted strong job growth over the last two years to bring its unemployment rate down to 4.9%, joining the South Central and Eastern regions with unemployment rates below 5%.
- The Southwest has overtaken the Northwest region as the area of the state with the most jobs. All regions of Montana are expected to continue job growth in the future, with growth rebalancing to the western, more populated portions of the state in the long-term.
- Most of Montana's reservation communities also enjoyed lower unemployment rates in 2013 than in years past. Unemployment dropped on the Fort Peck, Flathead, Crow, Northern Cheyenne Reservations. Unfortunately, the Blackfeet, Fort Belknap, and Rocky Boy's reservations faced increases to their unemployment rates over the year. Unemployment rate increases and job losses may be a result of lower federal spending for education and health services.

Although Montana has recovered all the jobs lost during the recession, there are still some lingering impacts on our labor force. Some continued concerns about our economy include:

- Montana's rate of worker separations and hires remains significantly below pre-recession levels even with a return to low unemployment rates, suggesting labor market frictions are preventing employers from hiring workers into open positions.
- Montana's business openings and closure rates have returned to pre-recession levels, but with increased seasonality, largely due to business closure rates in the construction industry. These rates will likely diminish and stabilize as the construction industry continues recovery.
- Although Montana's rates of entrepreneurialism are high, most Montana businesses are small and don't hire many employees, which limits the economic impact entrepreneurialism could have in our economy.

Lower labor force participation and an aging workforce make it likely that Montana will be facing worker shortages and a decline in human capital in future years. Ultimately, our economy will

require additional worker training and education, including on-the-job training, to improve productivity and enhance economic growth. Some future concerns about our economy include:

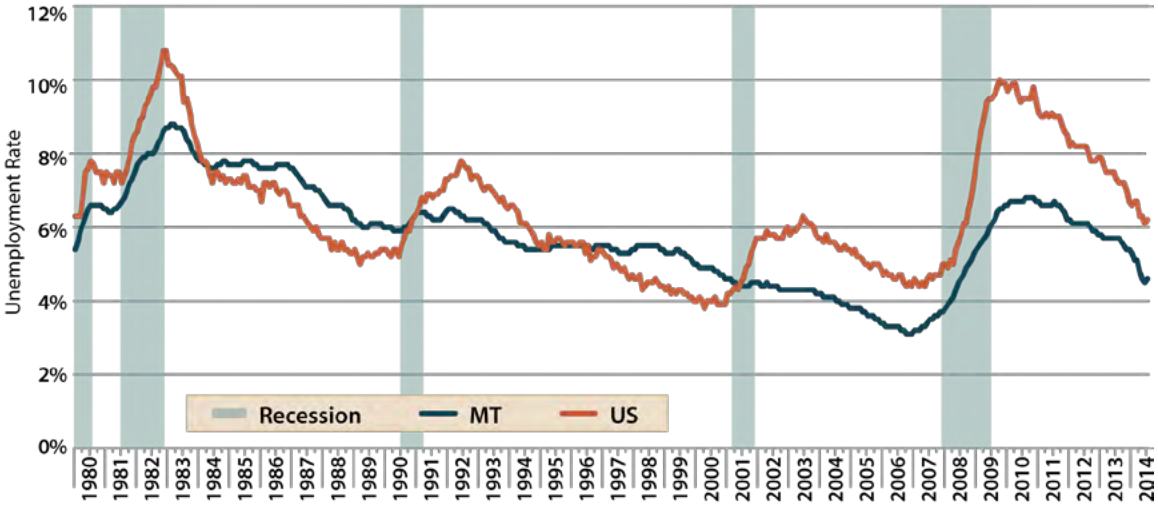
- After 2015, job growth is expected to slow due to worker shortages caused by the retirements of Montana's aging workforce. About 27% of Montana's workforce is 55 or older and approaching retirement age, with these impending retirements potentially reducing Montana's labor force by 137,000 workers.
- The labor force participation rates for both the youngest workers aged 16 to 19 and the college-aged workers aged 20 to 24 have been declining since the mid-80s.
- Continued emphasis on increasing educational attainment is needed to address the loss of human capital from the retiring workforce and to remain competitive in the global economy.
- Montana is ranked the best in the nation for the percent of the population over 25 with a high school diploma, 21st among states for the percent of the population with an associate's degree or higher, and 20th in the nation for the percent of the population with a bachelor's degree or higher.
- The percentage of jobs requiring higher than a high school diploma will increase from 28.2% in 2013 to 29.1% in 2022, with the share of jobs requiring a bachelor's degree growing by half a percent.

On Labor Day 2014, Montana's economy is healthy, with expected continued job growth in 2014 and beyond. We will continue to address challenges to make Montana an even better place to work and do businesses.

Unemployment

Montana's unemployment rate has been lower than the U.S. rate since the 2001 recession, hitting its all-time low of 3.1% at the end of 2006.[i] Figure 1 illustrates the U.S. and Montana unemployment rates since 1980 with the recession periods highlighted. The 2007 recession caused Montana's rate to increase 3.7 percentage points to 6.8% in the fall of 2010, peaking after the 2007 recession. The U.S. unemployment rate increased by a greater amount during the 2007 recession, up 5.6 percentage points to a high of 10% in October 2009. Although higher than desired, the 2007 recession did not have the highest unemployment rate ever recorded in Montana. Montana's highest unemployment rate recorded was 8.8% in 1983.

Figure 1: Montana and U.S. Unemployment Rates since 1980



Source: Local Area Unemployment Statistics for Montana and Current Population Survey for U.S., Bureau of Labor Statistics and MT Dept of Labor and Industry

Montana's unemployment rate is now at ideal levels of between four and five percent. Economists generally consider unemployment rates between four to five percent as "normal" unemployment, which is the level of unemployment that provides a healthy balance of most workers being able to find jobs at reasonable pay and businesses being able to find workers with the right skills and experience to do the job. Unemployment rates higher than the normal level indicate workers will find it difficult to find jobs, causing financial stress to families and ultimately reducing demand for Montana's products due to lower wage income available for spending. Unemployment rates lower than the normal level suggest worker shortages, where businesses have a difficult time finding workers to fill positions. Without workers, businesses can't produce goods and services, slowing the growth of our state's economic production.

At 4.6% in July 2014, Montana had the 11th lowest unemployment rate in the nation. Montana has achieved this relatively low rate through strong employment growth, with above-average employment growth for the last three years. The unemployment rate is the ratio of two different metrics – the labor force and employment levels. The labor force includes people who are working or who are

looking for work. Montana's labor force decreased significantly during the recession, falling over 3% during 2008 and 2009. Labor force participation usually decreases during recessionary periods as workers become discouraged looking for work, and choose to pursue other life interests like caring for family or furthering their education.

Since the low in December 2009, Montana's labor force recovered fairly quickly, and is now 1.7% above the pre-recession peak (compared to 1.1% higher than the peak for employment). In contrast, the U.S. labor force did not decline as much as Montana during the recession, but has recovered much more slowly. The U.S. labor force is less than 1% above the pre-recession peak, raising concerns about slow growth in the U.S. labor force. Fewer workers in the labor force reduces the economy's long-term growth potential by reducing the availability of labor and limiting the development of worker skills and human capital that workers would have developed if they were in the labor force. Labor force participation rates are discussed further in the Montana's Economic Future section.

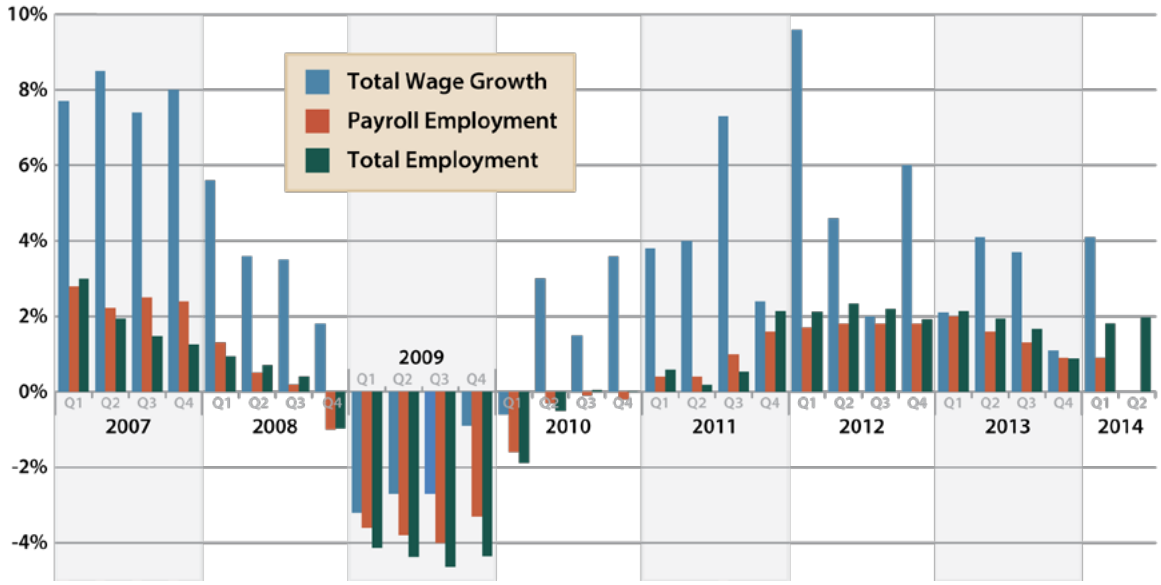
Job Growth

Montana's decreasing unemployment rate is primarily due to strong job growth. Although employment growth was slow exiting the recession, employment growth since 2012 has been above average. Montana's total employment growth was 1.7% last year (7,880 jobs), making Montana the 5th fastest state for employment growth in the nation. Total employment is an estimate of all people who are working in Montana, including payroll workers, the self-employed, and agricultural workers. In comparison, Montana's compounding average employment growth rate since 1980 is roughly 1%. Total job growth of 1.7% in 2013 was faster than average and faster than the national employment growth rate of 1%.

Payroll job growth in 2013 was slightly slower than total job growth, adding 6,400 jobs for a 1.5% increase.[ii] Payroll jobs are a count of the number of workers who work for firms that participate in the unemployment insurance system; therefore, the count excludes the self-employed and some agricultural and railroad workers whose wages are not taxed for unemployment insurance purposes. Payroll employment has grown at a compounding average rate of 1.4% since 1980, meaning that job growth in 2013 was slightly higher than average. Payroll employment growth was held back by the elimination of roughly 500 federal government jobs in Montana. Private payroll businesses added 6,753 jobs for a growth rate of 1.9%.

However, as illustrated in Figure 2, total and payroll employment grew at a fairly rapid pace at the start of 2013, but slowed in the latter half of the year, with erratic total wage growth in 2012 and 2013. Total wages are the sum of all wages paid to payroll employees in the state, and are important to future economic growth because it allows workers to stimulate the local economy with greater consumer spending. Total wages have been growing since the end of the recession, but have not yet returned to the large increases of the "bubble" years that occurred prior to the recession. A return to the high growth of the bubble years should not be expected, however, as economic growth during these years was higher than supported by fundamentals, thus creating a bubble.

Figure 2: Montana Employment and Wage Growth by Quarter



Source: Quarterly Census of Employment and Wages, Local Area Unemployment Statistics, Bureau of Labor Statistics and MT Dept. of Labor and Industry

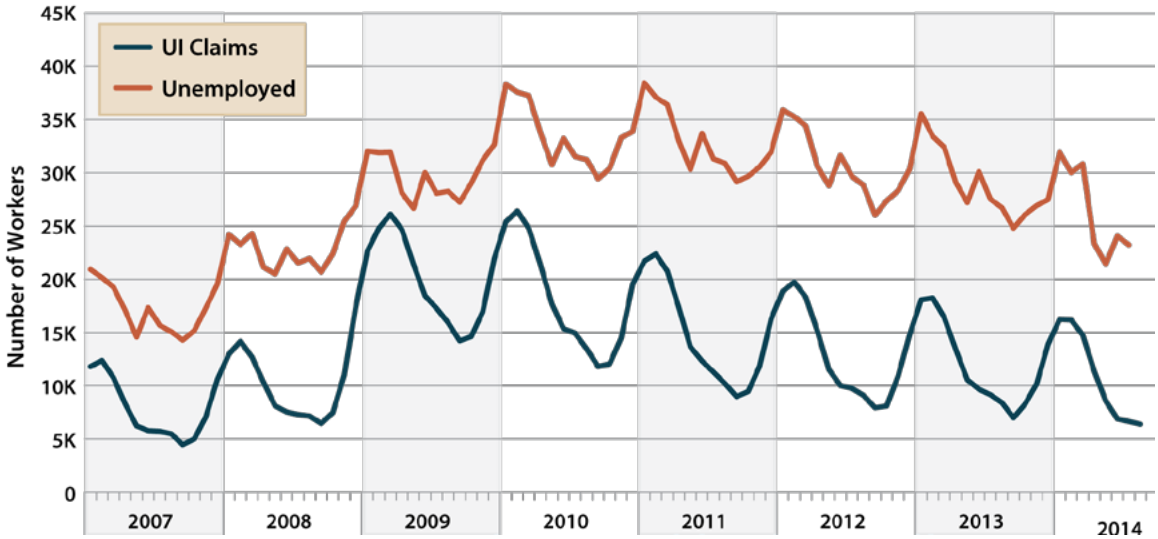
The most recent employment figures indicate that the slowdown at the end of 2013 has ended, with total employment posting rapid growth in 2014. Preliminary employment estimates suggest that Montana has added over 12,000 jobs in the first half of 2014, which puts Montana on pace for a record-breaking year for employment growth. Even if employment growth slows in the second half of the year, employment forecasts still expect above average job growth of 1.7% in 2014 for Montana.[iii]

Unemployment Claims

A review of Montana's unemployment insurance claims also suggests that Montana's unemployment rate will continue to decline. Figure 3 illustrates the recent downward trend among both the number of unemployed workers and the number of unemployment insurance (UI) claims. UI claims tend to be a leading indicator for Montana's economy, with a turnaround in UI claims trends occurring prior to a change in the economy. The continued decline of UI claims suggests that Montana's unemployment rate will continue to decline for the rest of 2014.

Roughly one-third to one-half of unemployed workers receive UI benefits, depending on the month, the labor market situation, and the current regulations determining benefit eligibility. Some workers do not apply, and other workers do not qualify because of an insufficient wage or work history. There are also some workers who qualified for benefits, but are no longer receiving them because they have exhausted their benefits without finding employment. The number of UI claims during the recession peaked at over 26,000 claims in the first quarter of 2010, but has since fallen to roughly 16,200 claims in the first quarter of 2014. The peak number of unemployed workers, including all unemployed workers regardless of whether they received UI benefits, occurred in January 2010 at 38,500 workers.

Figure 3: Unemployed Workers and Unemployment Insurance Claims, 2007- July 2014



Source: Local Area Unemployment Statistics, Bureau of Labor Statistics, and UI claims Data, MT Dept. of Labor and Industry.

Unemployed workers in Montana are staying on unemployment for less time in 2014 than in 2013, a sign of more job opportunities and a stronger labor market in 2014. Including only workers receiving UI benefits in the first six months of the year, the average time on UI benefits was 17.1 weeks in 2014 compared to 17.5 weeks in 2013. In 2013, 20.6% of workers receiving UI benefits were unemployed for 27 weeks or longer (officially making them long-term unemployed), compared to 18.6% of workers in 2014. The average duration of unemployment appears to be shrinking for Montana unemployed workers, and fewer workers are unemployed for a long time.

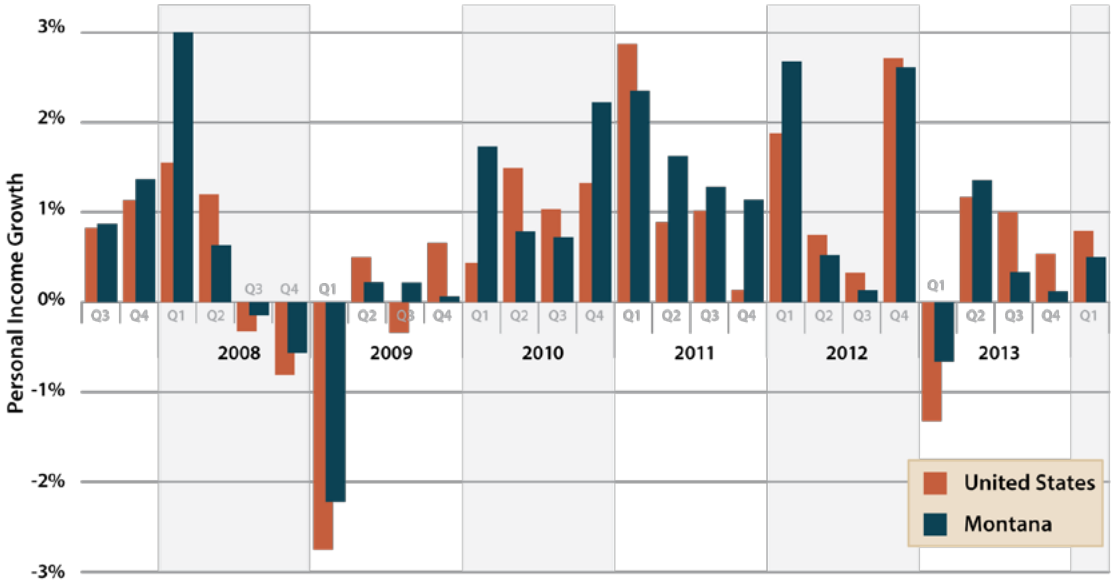
Personal Income and GDP

Personal income data, shown in Figure 4, suggests that Montana's economy is accelerating in 2014 after slower growth at the end of 2013.[iv] Montana has per capita income of roughly $39,199, which ranks 36th in the nation. Personal income includes wages, benefits paid to workers, proprietor income, dividends, interest, rent, and transfer payments to individuals (transfer payments primarily come from government and include social security, veterans benefits, and other similar transfers).

Overall, Montana's personal income growth has outpaced the U.S. over the last five years since the recessionary losses in 2008. Montana had the 13th fastest personal income growth among states over the last year, and had the 6th fastest personal income growth among states over the last five years. Personal income growth for both Montana and the U.S. was negative in the first quarter of 2013 due to the fiscal cliff, payroll tax cut expiry, and sequester, which reduced the amount of money spent by government in the economy, thus slowing economic growth. Montana's federal funding has decreased since 2010; prime award totals have fallen from $8.0 billion in 2010 to $5.2 billion in 2014. In Montana, the largest portion of federal funding is sent directly to Montanans as social security (about 48% of Montana's funding), veterans' benefits (14.8%), and agriculture assistance and crop insurance (about 5.1%). Montana also received roughly $1 billion to operate the health programs (Medicaid and Medicare) and social assistance programs.[v] The residual effects of the

cuts to federal funding continued to impact Montana throughout 2013. However, personal income growth in the first quarter of 2014 is showing greater strength than the last half of 2013, hopefully leading to stronger growth for the rest of the year.

Figure 4: Personal Income Growth, U.S. and Montana



Source: Bureau of Economic Analysis

National gross domestic product (GDP) growth also raised uncertainty about the prospects of prosperity in 2014. U.S. GDP growth estimates for the first quarter of 2014 were negative due to weather-related losses. However, estimates for the second quarter posted strong positive growth, easing worries and increasing the likelihood of Montana's continued growth this year. GDP estimates at the state level are only available annually, making it difficult to determine how Montana's GDP reacted to the national weather-related slowdown in the first quarter of 2014. Montana's GDP expanded by 4.5% in 2013, ranking Montana as the 13th fastest growing state based on GDP in the nation. Montana also has the 8th fastest growing GDP among states for both the five-year and ten-year timeframes. In comparison, the U.S. GDP increased by 3.5% in 2013. Real GDP increased by 3% in Montana over the year compared to 1.8% nationally.

Montana's Industries

Thus far, the description of Montana's economic growth has focused on three economic indicators – employment, personal income, and GDP. These large macro-economic indicators are aggregates of the underlying growth in different industries. However, each industry contributes differently to the economy in terms of employment, GDP, or personal income. For example, Figure 5 illustrates the contribution of each industry to Montana's overall employment, personal income earned from work, and GDP totals. In 2013, financial activities was the largest industry for GDP, followed by the government and trade sectors. GDP measures the overall value added by the industry from economic activity, and can be thought of as the value of sales minus the costs paid for non-labor inputs. Wages earned by Montanans are included in GDP because they represent the value of economic activity added by workers to the production of goods and services in Montana.

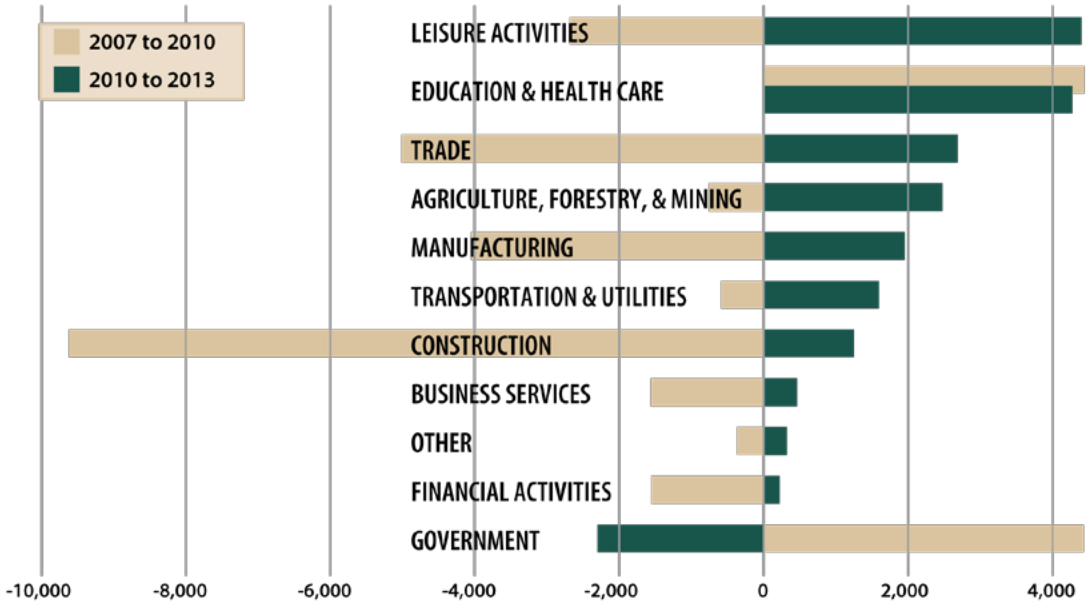
In contrast, the largest industry in terms of personal income earned from work is health care and education, along with government and trade. Personal income can be thought of as the amount of income received by Montana residents as a result of economic activity, and it is equal to the wages and benefits earned by workers plus proprietor income. Finally, the largest private industries in terms of employment are health care, trade, and leisure activities. These three industries combined employ nearly 45% of Montana's workers. Government also is a large employer, with roughly 18.8% of employment, most of whom are employed by local governments. GDP, personal income, or employment all equally measure important elements of the Montana economy, just like all industries are important to the proper functioning of the Montana economy. All industries work together to create a dynamic economy.

Figure 6 illustrates the employment losses from 2007 to 2010 compared to the employment gains from 2010 to 2013 by industry. From 2007 to 2010, the national recession resulted in over 22,000 lost jobs in Montana (roughly 1.5% of jobs per year), leaving a large number of Montana workers unemployed. All private industries except healthcare and education posted job losses during the recession, with the biggest job losses occurring in the construction, manufacturing, and trade sectors. The construction industry was the hardest hit, losing over 9,600 jobs. The national housing crisis also lowered demand for Montana's wood products manufacturing industry, causing roughly 1,900 job losses in that industry (roughly half of the total 3,700 jobs lost in manufacturing during the recession). The fall in construction demand also impacted the trade sector, which lost 5,000 jobs, with the largest retail job losses occurring in the sub-industries

Figure 5: Montana Industrial Composition by GDP, Work Earnings, and Employment

Source: Bureau of Economic Analysis and Quarterly Census of Employment and Wages, Bureau of Labor Statistics and MT. Dept of Labor and Industry

Figure 6: Recession Job Losses (2007 to 2010) and Recovery Job Gains (2010 to 2013) by Industry



Source: Quarterly Census of Employment and Wages, Bureau of Labor Statistics and MT Dept. of Labor and Industry

of durable goods wholesalers (which handle a lot of wood products and other goods needed in construction) and building material and garden supply stores (such as Home Depot or Lowes that sell goods related to the housing sector).

While much of the recession job loss can be attributed to the national housing crisis and its impact on the industries of construction, manufacturing, and retail, other industries also were impacted by the recession. Job and wage losses in the industries directly affected by the housing crisis resulted in lower consumer spending across all industries in Montana, thus reducing demand for Montana's goods and services. Further, with the entire global economy impacted by troubles in the financial industry, Montana's exporting industries faced lower global demand for their products, resulting in additional layoffs.

But Montana's economy was not without some bright spots. Throughout the recession and recovery, the health care sector continued to add jobs and provide economic opportunities for Montana's workers, adding over 8,000 jobs since 2007. The health care industry provides above average salaries and is expected to continue to demand large numbers of workers in the future, making this industry an excellent prospect for students and other workers considering future careers.

The government sector provided critical counter-cyclical support by adding jobs and increasing spending during the recession, and then reducing employment as the private sector recovered. Much of the temporary growth in government jobs during the recession came as a part of the 2010 Decennial Census, which provided employment opportunities during a time when the national economy needed additional spending to stabilize. However, the post-recession federal government cut backs and sequester activities have slowed the economic and employment growth during the last three years. Montana has experienced reduced federal government employment levels, reduced

spending on government contracts held by Montana businesses, and lower funding to local and state governments for infrastructure improvements and other government functions. The federal government cutbacks were successful in reducing the federal budget deficit, which is expected to be at 3% or lower through 2017, but these cutbacks have been a drag on GDP and employment growth throughout the recovery.

Montana's employment levels have been increasing since 2010. By February 2013, Montana regained all of the payroll jobs lost during the recession, and regained total employment (including the self-employed) in February 2014. Montana's recovery was earlier than the U.S., which reached the pre-recession payroll employment peak in May 2014, but has yet to recover all of the total employment losses that occurred during the recession (self-employment has not yet recovered). As of July 2014, Montana is at new employment highs of 457,900 payroll jobs (9,800 jobs or 2.2% above the previous peak) and 496,600 total jobs (6,800 jobs or 1.4% above the previous peak).

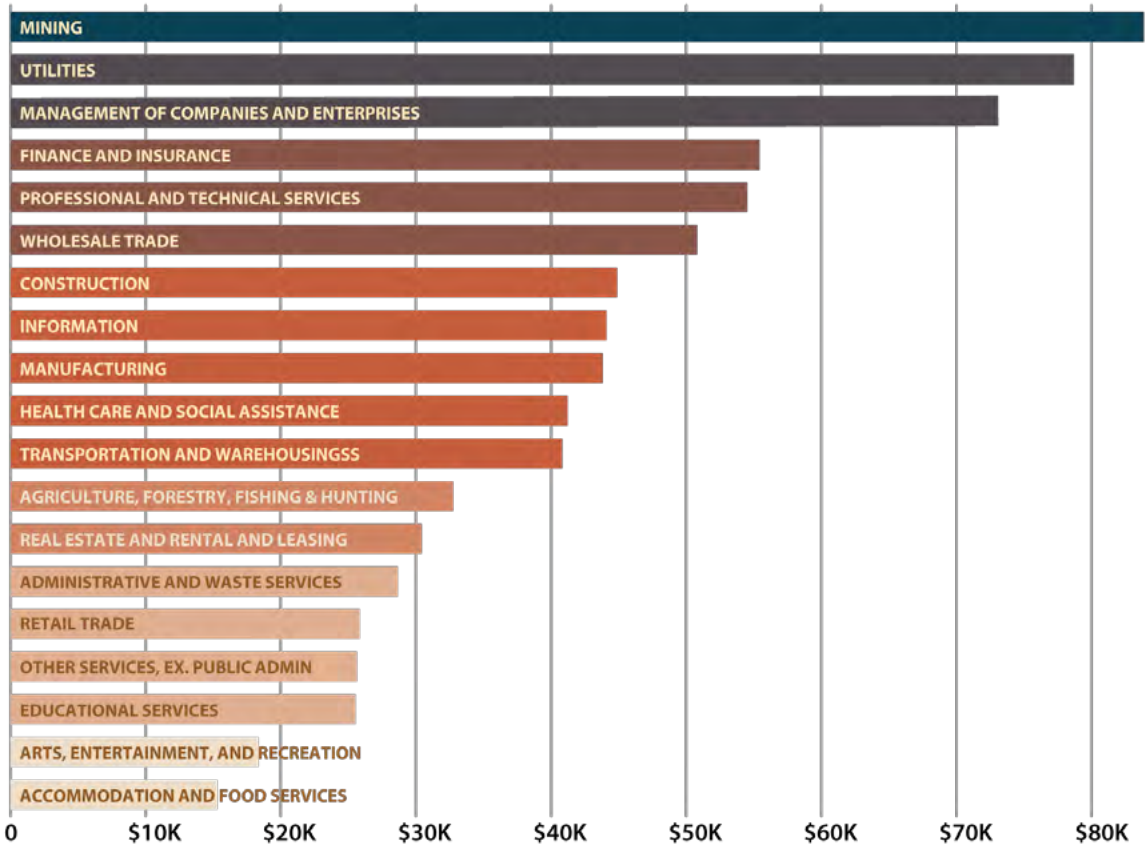
All of Montana's industries are now adding jobs in recovery, with the exception of the government sector. Leisure activities, trade and transportation, and health care have added the most jobs, but the mining industry has been growing at the fastest rate. The mining and transportation growth is related to the Bakken oilfield development, which requires significant truck and train transportation to get the mined oil and gas to markets. While official employment estimates suggest that the business services industry (which includes professional services like lawyers, engineers, and accountants) has posted only a small growth since 2010, a coding change in the first quarter of 2013 hides the actual growth in this industry. Without this coding change, business services would have added roughly 2,800 jobs during the 2010 to 2013 time frame.[vi]

Wages and Job Quality

Figure 7 illustrates the average wage by industry in 2013.[vii] Wages by industry includes only wages paid for payroll jobs, and does not include benefits or proprietor income earned by the self-employed. Mining pays the highest average annual wage in Montana, followed by utilities. Most industries have average annual wages above $40,000 per year, although agriculture, administrative and waste services, retail, and leisure activities (which include arts, entertainment, accommodations, and food service establishments) fall below the $30,000 mark. The leisure activities industries have low annual average wages not just because of low hourly wages, but also because these industries have a high percentage of part-time employment. Fewer hours worked during the year results in lower annual average wages. However, such part-time, entry-level jobs also serve as opportunities for young workers to gain work skills while attending school or pursuing other interests, allowing them to develop greater human capital.

One concern raised about the recovery from the 2007 recession is that the recovery job growth has been centered in industries with low-paying, part-time jobs, such as retail and leisure activities. Looking at the recession job loss, recovery job gain, and average wage per industry does suggest that some of the job growth has occurred in the low-paying industries of retail and leisure activities, where part-time employment and low wages drive down the annual salary. However, most of these jobs are merely replacing lost jobs. Many of the new jobs added have been in the high-paying industries of mining, professional services, and the health care sector.

Figure 7: 2013 Montana Average Wage by Private Industry

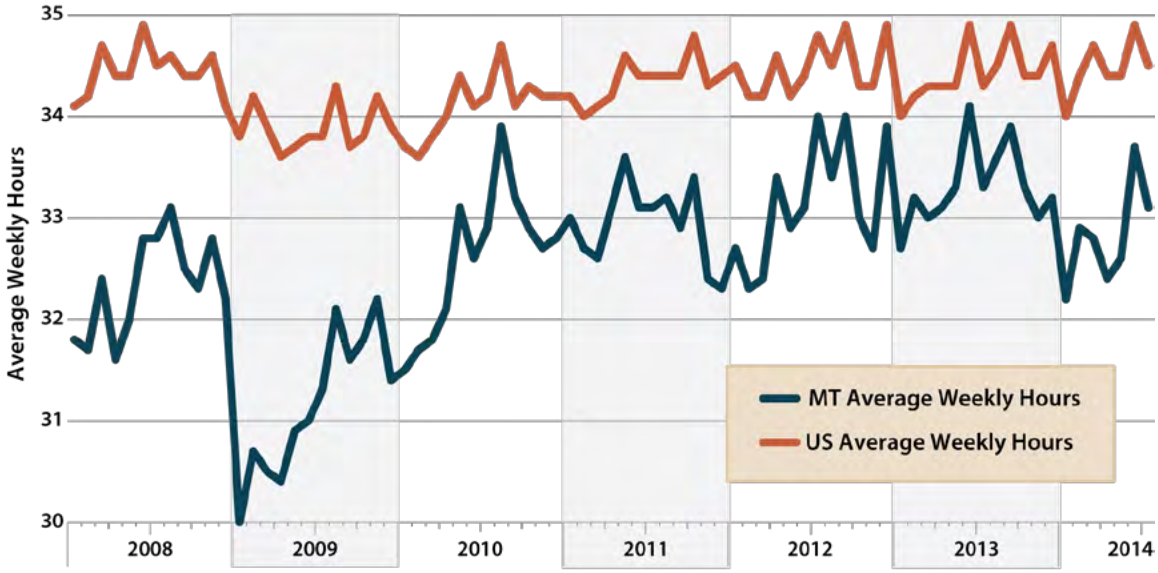


Source: 2013 Quarterly Census of Employment and Wages, Bureau of Labor Statistics and the MT Dept. of Labor and Industry

Concerns about a lack of full-time jobs are of greater concern for the national economy than in Montana. Figure 8 illustrates the average number of hours worked per week by payroll workers in Montana and the U.S. If more part-time jobs were being added instead of full-time jobs, the average weekly hours would decrease. Montana's average weekly hours worked has steadily increased during the recovery period from a low of 30 hours per week at the start of 2009 to an average of 33.3 hours in 2013. The 2013 average is higher than the average hours worked prior to the recession, suggesting that the recession did not result in a permanent move towards part-time jobs. The U.S. average hours worked has recovered to their pre-recession level of 34.4 average hours per week, but it has not yet moved above that level.

Although average weekly hours have been rising, many Montanans are currently working in part-time jobs even though they would prefer full-time employment. About 36% of Montana's part-time workers said they would prefer full-time work when asked over the last year, compared to only 16% of part-time workers wanting full-time work in 2007 prior to the recession.[viii] Further, Montana's rate of multiple jobholding remains above the national average at 6.9% in 2013 compared to the national average of 4.6%, which is often an indication that workers must work multiple jobs to meet budget constraints. The rate of multiple job holding in Montana has decreased from 7.5% in 2012. Montana's neighboring states also have above average rates of multiple jobholding.[ix]

Figure 8: Average Weekly Hours and Earnings, U.S. and MT



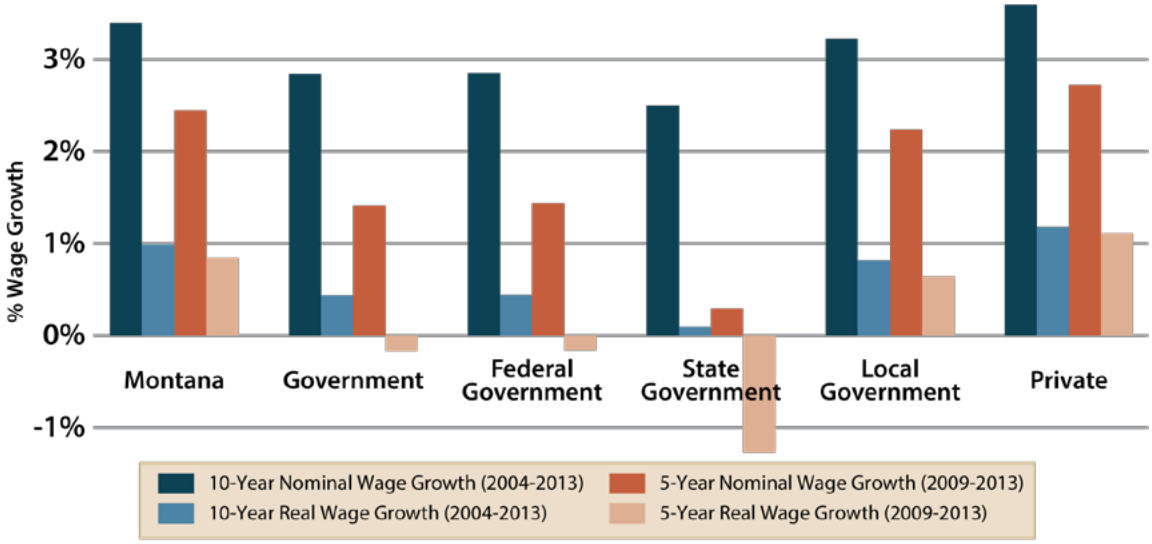
Source: Current Employment Statistics, Bureau of Labor Statistics

In terms of wage growth, Montana's average wage growth has been outpacing the national average and most other states. In fact, Montana ranks 5th in terms of average annual wage growth over the last ten years. Wage growth has been driven by the private sector, which had the second fastest growth in the nation in 2012 with a 4.3% increase over the year. This rapid wage growth has helped Montana catch up to wages in the rest of the nation. Montana's average wage of $37,575 ranks 47th out of 50 states, too low for Montana's working families, but up one place from the previous year due to our above average wage growth. South Dakota, Idaho, and Mississippi have lower wages than Montana.

Figure 9 illustrates the annual wage growth by sector in Montana. Wage growth in the private sector has outpaced the government sector for both the 10-year and 5-year timeframes. The chart also illustrates real wage growth, which adjusts wage growth for inflation to determine whether workers can buy more goods and services with their wage than in earlier years. An increase in the real wage suggests that workers can achieve a higher standard of living than in years past. Private workers and local government workers have seen their real wages increase over the past five years, but federal and state government workers have faced lower real wages. Figure 9 includes wage increases in both real terms and nominal terms, with nominal wage growth meaning that it is not adjusted for inflation.

Most recently over the last year, wage growth in Montana slowed from the rapid increases of earlier years, with nominal wage growth of 1.3% overall. Private wages increased 1.4% compared to 1.8% for local government, 2% for state government, and a decline of 0.4% in the federal government. The slow growth in the state average was due to a decline in the average annual wage in the Southwest and North Central regions of Montana (see Figure 10 for a map). Other regions of the state increased their average annual wages in 2013 both in nominal and real terms.

Figure 9: Average Annual Wage Growth by Sector

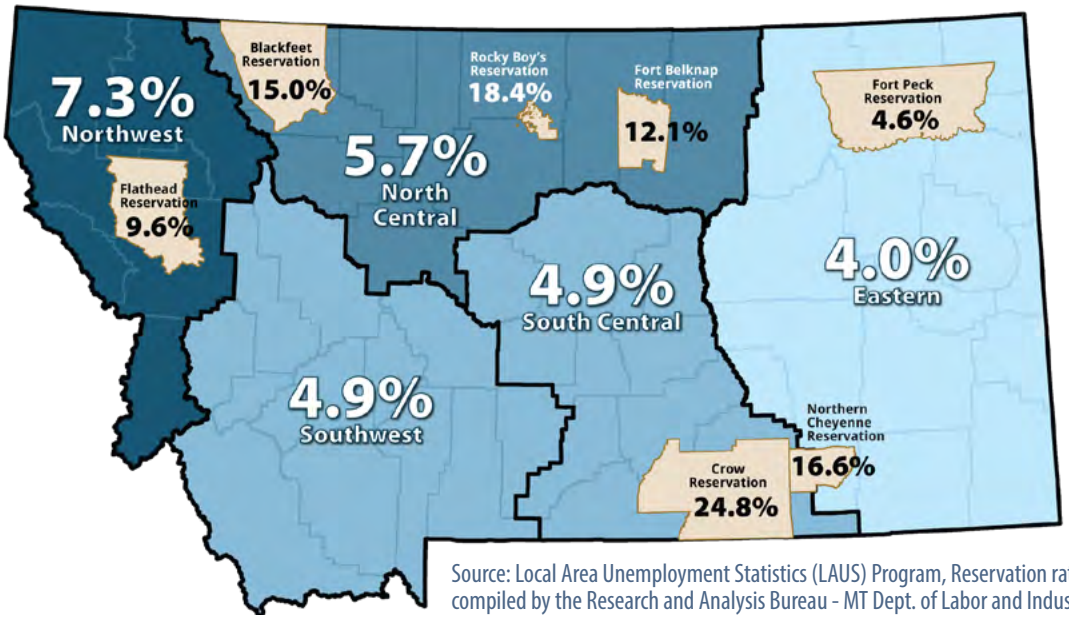


SOURCE: 2013 Quarterly Census of Employment and Wages, Bureau of Labor Statistics and MT Dept. of Labor and Industry

Montana's Regions

Figure 10 illustrates the five labor market regions of Montana, along with Montana's seven reservations, and their unemployment rates. The Northwest region has had the highest unemployment rates throughout the recession, with rates of 9.2% in 2011 and 8% in 2012. The rate dropped significantly in 2013 to 7.3%. During the recession, the Southwestern region of Montana had the second highest unemployment rates, but the Southwest has posted strong employment growth during the recovery, bringing the unemployment rate down to 4.9% in 2013. The North Central region has not

Figure 10: Unemployment Rates for Montana's Labor Market Regions and Reservations

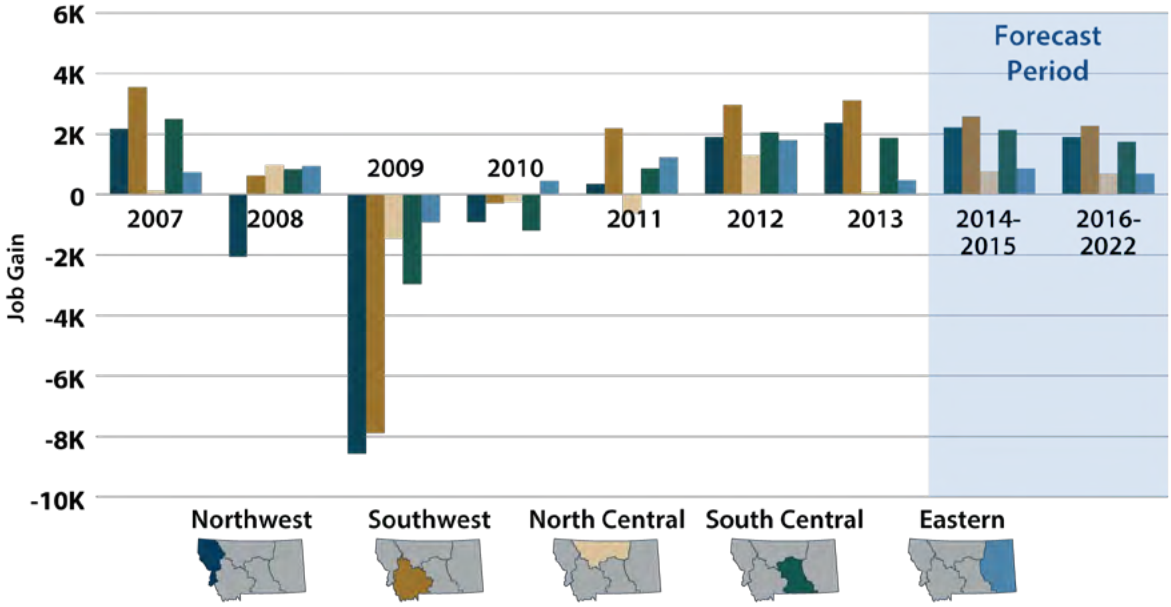


Source: Local Area Unemployment Statistics (LAUS) Program, Reservation rates compiled by the Research and Analysis Bureau - MT Dept. of Labor and Industry

improved their unemployment rate over the last year, and now has the second highest unemployment rate among regions in Montana at 5.7%. The South Central and Eastern regions continue to post low unemployment rates, with some counties in Eastern Montana experiencing extreme worker shortages due to the development of the Bakken oil fields and the resulting demand for goods and services in the region.

Figure 11 illustrates the job losses by region in Montana. The Northwest and Southwest portions of Montana faced the largest job losses during the 2007 recession, largely because these areas were more reliant on the hard-hit industries of construction and manufacturing when compared to other portions of the state. In contrast, the Eastern portion of Montana had the fewest job losses because of a heavy reliance on two industries that weathered the recession fairly well, energy and agriculture. The rapid growth in the Eastern region in 2011 and 2012 can be attributed to the development of the Bakken oil fields, with growth slowing in 2013.

Figure 11: Historic and Projected Job Gains by Region



Source: Local Area Unemployment Statistics, Bureau of Labor Statistics and employment forecast by MT Dept. of Labor and Industry.

Although both the Northwest and Southwest lost over 5% of their employment in 2009, the Southwest has recovered much more quickly. In fact, the Southwest has overtaken the Northwest as the region with the largest number of jobs, and is expected to widen its margin in the upcoming years. All regions of the state reached or exceeded their pre-recession employment levels by the end of 2013, except the Northwest.

The strong employment growth in the Eastern and South Central regions of Montana has driven statewide wage growth. Although Montana's average annual wage has increased by $4,250 in the five years since 2008, wage growth has been significantly faster in the Eastern portion of Montana. Wages over the last five years have increased at a similar pace in three regions – by $3,030 in the

Northwest region, $3,150 in the North Central Region, and $3,700 in the Southwest. The South Central and Eastern regions have had much faster growth, increasing their average wage over the past five years by $5,460 and $8,280 respectively.

Employment growth is expected in all of Montana's regions in the future, including the Northwest region. Although the South Central region around Billings and Eastern Montana are expected to have the fastest job growth in the upcoming years, the slower growth in the West still translates to adding a larger number of jobs because of the larger population in Western Montana. Employment forecasts for Montana's regions are illustrated in Figure 11.

Most of Montana's reservation communities also enjoyed lower unemployment rates in 2013 than in years past. Unemployment dropped significantly over the year on the Fort Peck Reservation (down 4.8 percentage points to 4.6%) and Flathead Reservation (down 1.2 percentage points to 9.6%). Small declines occurred over the year on the Crow Reservation (0.3 percentage point decline) and the Northern Cheyenne Reservation (0.1 percentage point decline). Most of these reservations also posted job gains, with the strongest job gains occurring on the Crow reservation with 4.4% growth. Unfortunately, three reservations faced increases to their unemployment rates over the year, with the unemployment rate on the Blackfeet Reservation increasing 0.8 percentage points to 15%, the Fort Belknap Reservation increasing 0.7 percentage points to 12.1%, and Rocky Boy's Reservation increasing to 18.4%.

Figure 12 illustrates the employment and wage changes from 2012 to 2013 on Montana's reservations. Overall, the reservation areas fell in employment, but increased wages by 1.3%. This wage increase is slower than inflation and slower than wage growth in Montana as a whole. The employment loss on the reservations may be related to lower federal government spending due to the federal sequester, fiscal cliff, and other budgetary cutbacks, although there were not significant changes among the employment levels in public administration. However, there were sizable declines in employment for education and health services, which are often federally funded services, particularly on the Northern Cheyenne, Crow, and Rocky Boy's reservations. In general, Montana's reservation areas are the most economically sensitive areas of our state, with unemployment rates much higher than the surrounding region.

Figure 12: Employment and Wage Changes on Montana's Reservations

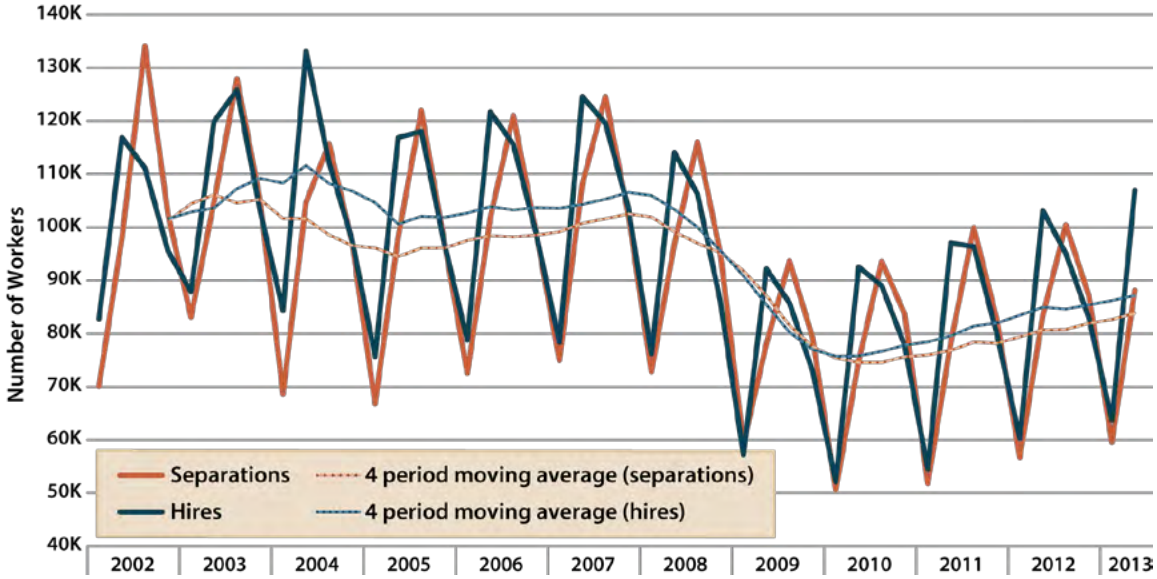
	Employment			Wages		
	2012	2013	Change	2012	2013	Change
Blackfeet	2,995	2,945	-1.7%	$32,993	$32,295	-2.1%
Crow	2,081	2,173	4.4%	$34,870	$34,696	-0.5%
Flathead	8,054	8,164	1.4%	$31,339	$31,567	0.7%
Fort Belknap	326	315	-3.4%	$42,144	$43,742	3.8%
Fort Peck	3,250	3,248	-0.1%	$31,675	$33,188	4.8%
Northern Cheyenne	1,421	1,335	-6.1%	$33,617	$35,160	4.6%
Rocky Boy's	1,032	875	-15.2%	$43,321	$46,928	8.3%
Total	19,159	19,055	-0.5%	$33,036	$33,471	1.3%

Source: Montana Department of Labor and Industry Reservation Employment Estimates.

Labor Market Dynamics

In addition to examining the level of total employment, economists also examine hiring rates and separation rates to understand the underlying dynamics of the economy. An examination of these rates for Montana suggests that there are lingering effects of the recession on our labor markets, despite our job recovery. Figure 13 illustrates the rate of separations and hires in Montana from 2002 through the second quarter of 2013 (the last quarter of data available). Separations describe the number of workers who have worked for an employer for at least one quarter, but then leave that employer. These workers may move into another job, into unemployment, or leave the job market for school or other reasons. The number of hires includes only hires that last more than one quarter with the same employer.

Figure 13: Separations and Hires



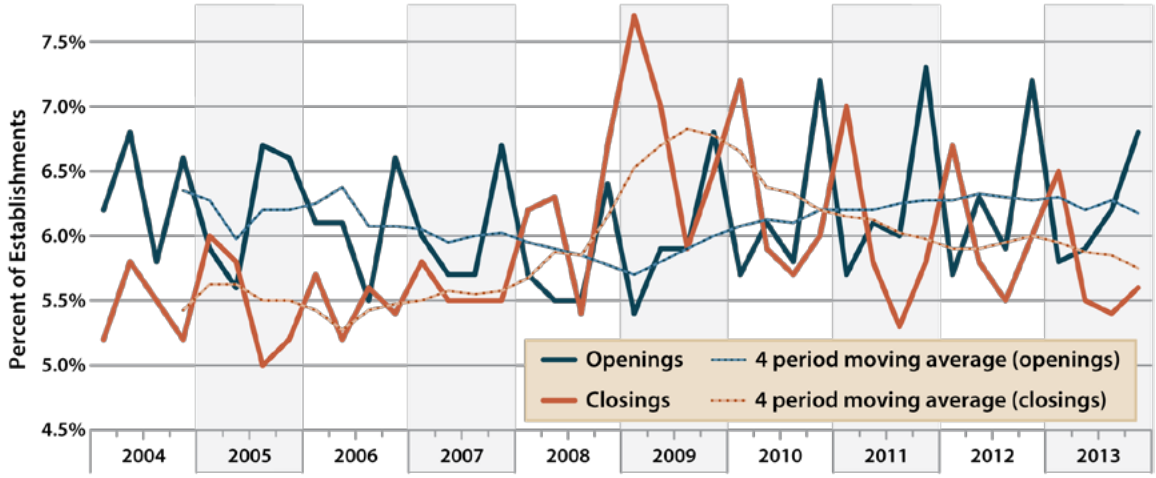
Source: Quarterly Workforce Indicators, U.S. Census Bureau

Prior to the recession from 2005 to 2007, the average separations per quarter were about 99,000 workers in Montana, roughly one-fourth of the workforce. Hires averaged about 104,000 per quarter, or a net gain of 5,000 jobs per quarter. As Montana entered the recession, both the level of hiring and of job separations dropped. Employers stopped hiring in response to lower demand for their products. One might expect the separations rate to increase as employers fired workers, but a higher separations rate only occurred for a few quarters. Then, workers stopped leaving their jobs because they were worried that they could not find another job in the poor economic environment, thus reducing the level of separations. Hiring levels started to recover after 2009, and separations began to recovery in 2010, with a positive net hiring rate through 2013. However, the rate of both separations and hires remains below the pre-recession levels, even though employment levels are above the pre-recession peak, real wage growth has been positive, and the unemployment rate is low.

Employers will argue that hiring rates remain low because they are having a hard time finding workers with the right skills for the job. Workers will argue that employers make applying for jobs difficult, are asking for higher levels of skills and education than what is needed for the job, and have not yet adjusted starting salaries to the improved market conditions. Regardless of the cause for the reduced hires and separations rate, the data suggest that significant market frictions are delaying workers from filling job openings, and that there are lingering effects of the recession on Montana's labor markets.

Another area where the recession has impacted Montana's economy is the rate of business openings and closures. High business formation rates are a sign of a healthy economy and are a good indicator of future job growth as new businesses grow and add employment. Figure 14 illustrates the rate of Montana business startups and closures since 2004. During the 'bubble' period of rapid economic growth from 2004 to 2007, an average of 6.2% of all Montana businesses were newly opened in any particular quarter. The average rate of business closures was lower at 5.5% of businesses, resulting in a positive net business formation rate. That changed during the recession, with the level of business closings spiking to 7.7% in the first quarter of 2009, with an average of 6.5% during 2009 and 2010. Construction businesses represented roughly one-third of all business closures during this period. There were also other types of businesses that closed during this period, most notably some manufacturers in western Montana who employed hundreds of workers. While the closure of the large manufacturers had a large impact on Montana's employment levels, there were more construction businesses closing (with fewer workers) during the downturn.

Figure 14: Business Openings and Closings, as a Percent of Establishments



Source: Business Employment Dynamics, Bureau of Labor Statistics

The rate of business closures has slowly declined since 2009, with an average of 5.8% of businesses closing per quarter in 2013. Although the difference is small, the rate of business closures remains elevated from the pre-recession levels. However, the rate of business openings has recovered from the recessionary lows, leaving net business creation positive.

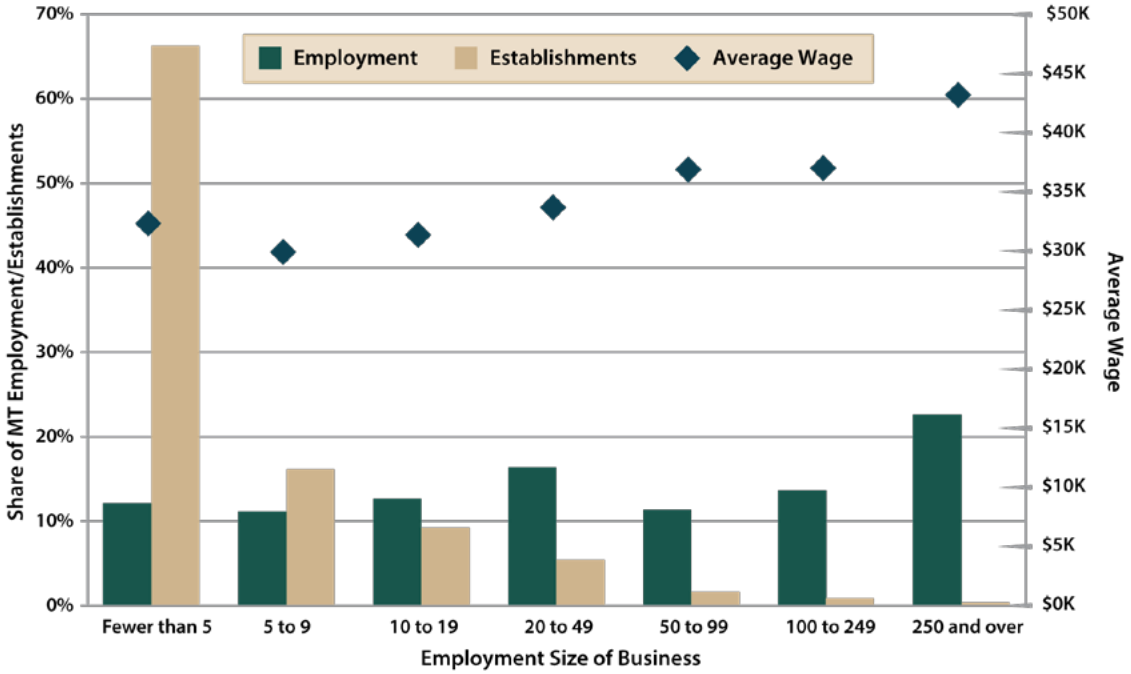
The seasonality of business openings and closures has been impacted in the post-recession period, with both construction and business services contributing to the increased seasonality. Even though the average rate of business openings from 2010 to 2013 is the same as the average rate during 2004 to 2007, the rate of business openings appears higher in the post-recession period due to the increased seasonality, with openings peaking up to over 7% in the fourth quarter. The increased seasonality is primarily due to a higher rate of business openings and closings in the construction industry, although the openings rate of business services has also become more volatile. Business services comprises roughly one-fifth of business openings and closures in Montana.

Entrepreneurialism and Business Size

Montana's rate of net business openings is positive, and ranks 12th among states for the highest rate of net business openings.[x] Other data also suggests that Montana has a high rate of entrepreneurialism – roughly 20% of Montana households have a business, ranking Montana 4th in the nation for this metric.[xi] This entrepreneurialism is vital to the Montana economy, as new businesses are an important source of job creation. New businesses started in the last five years have added nearly 60,000 net jobs to the Montana economy, a critical component to Montana's job recovery.[xii] Montana entrepreneurs are adding jobs and adding value to Montana's economy.

Although Montanans are good at creating new businesses and adding jobs, Montana's businesses tend to remain small. Figure 15 illustrates the share of Montana employment, establishments, and average wages paid by size class. Over 66% of Montana businesses have fewer than five employees, and have not added many jobs to our economy. Over 91% of Montana businesses have less than 20 employees. While small businesses are important to our economy and are an important source of

Figure 15: Share of Montana Employment, Establishments, and Average Wages by Size Class



Source: Quarterly Census of Employment and Wages , MT Dept. of Labor and Industry. Size class determined by maximum employment during the year.

job creation, small businesses have one obvious downfall – they are small. Montana's small businesses rarely grow into large businesses, thus limiting the impact entrepreneurialism could have on our economy. Businesses with 20 or more employees may only represent 8.2% of Montana businesses, but they hire 64% of Montana workers and pay out 69% of total wages paid in the state. Larger businesses are also more likely to pay higher wages, as shown in Figure 14, and are more likely to also pay health, retirement, and other benefits compared to small businesses.[xiii]

Montana's Economic Future

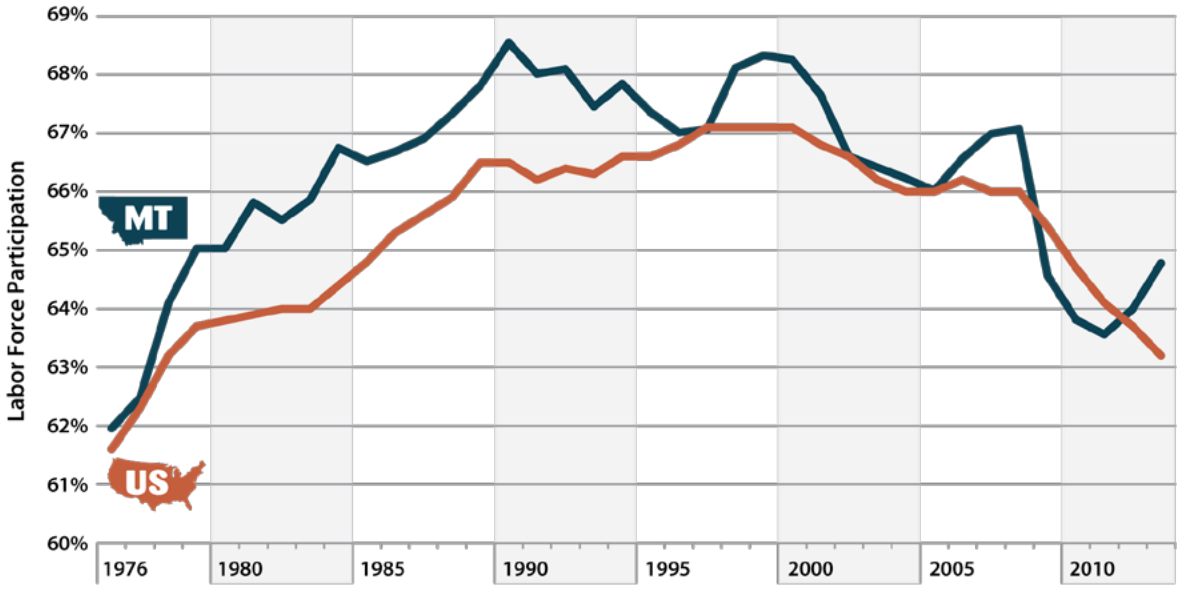
Montana's economy is expected to continue above average employment growth of 1.7% in 2014 and 2015. Montana is already on pace to beat this expected growth in 2014. However, after 2015, job growth is expected to slow due to worker shortages caused by the retirements of Montana's aging workforce. About 27% of Montana's workforce is 55 or older and approaching retirement age, with these impending retirements potentially reducing Montana's labor force by 137,000 workers. The group of young workers entering the labor force (aged 16 to 24) is simply not big enough to accommodate these retirements, with a total population of individuals aged 16 to 24 at only 113,000.[xiv] Increased migration could help address the shortfall, but other states will also have similar problems with an aging workforce, making it less likely that workers from other states will come to Montana seeking employment. Migration is not expected to fully accommodate the shortfall. Even if labor force participation increases at all age levels, it is likely that there will be fewer people available for work in the future.

Tight labor markets can provide economic benefits for workers because jobs are easy to find and wages increase rapidly. However, economic growth can be constrained if businesses cannot find the right workers, or enough workers, to produce their goods. Montana's overall economic growth will be slowed by worker shortages unless businesses make productivity-enhancing investments to allow each worker to produce more output, thus allowing economic growth to continue despite fewer workers. While Montana's labor force participation rates must increase, and likely will in response to higher wages and better economic opportunities, Montana's economic growth ultimately depends on our ability to increase technology, productivity, and innovation.

Figure 16 illustrates Montana's and the nation's falling labor force participation rates, which are largely lower because of the retirement of the aging population. While the 2007 recession negatively impacted labor force participation rates, the decline in labor force participation has been occurring for a longer timeframe than just the recession, with declines starting before 2000.

In addition to a retiring population, younger workers are not participating in the labor force at the same rates as in the past. The labor force participation rates for both the youngest workers aged 16 to 19 and the college-aged workers aged 20 to 24 have been declining since the mid-80s. Some of the decline is due to more young people attending college, which ultimately benefits our economy through more educated workers and higher levels of human capital. However, the decline in labor force participation rates among younger workers reveals changing expectations and cultural attitudes about work among teenagers, and potentially suggests a decline in relative wages and other incentives that would cause younger workers to work versus participate in other activities.

Figure 16: Labor Force Participation Rate 1976-2013

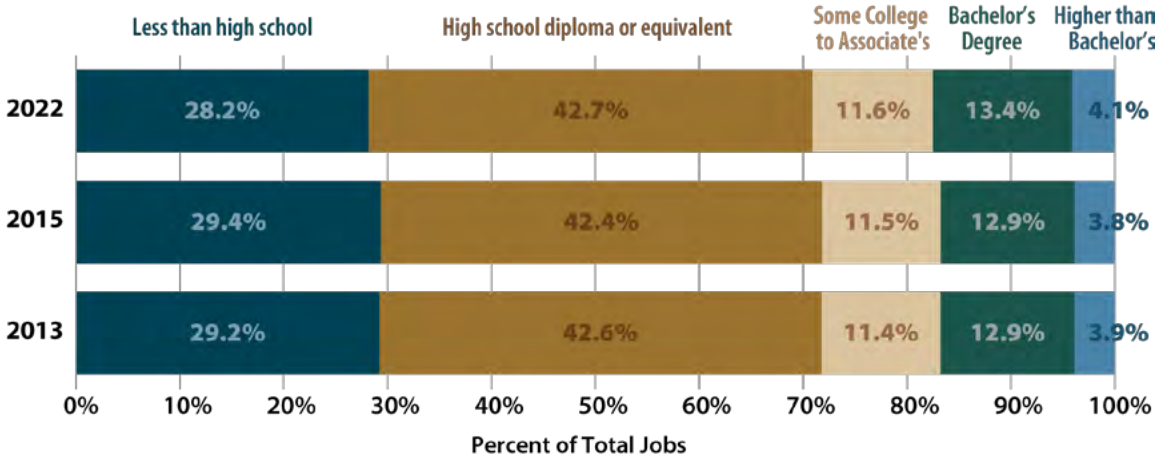


Source: Current Population Survey and Local Area Unemployment Statistics, Bureau of Labor Statistics and Montana Population Estimates, U.S. Census Bureau

Employers should prepare for the aging workforce by establishing succession plans to transfer knowledge from retiring workers to newly hired workers. Newly hired workers will not have the work experience of older workers, and will likely need instruction on basic work skills in addition to job-specific knowledge. Only 35% of Americans age 16 to 19 are in the labor force, meaning that many workers graduating high school will have very little work experience. While roughly 70% of Americans aged 20 to 24 are in the labor force, it is not uncommon for a college graduate to have little to no work experience prior to graduating. When replacing a retiring worker, businesses should expect the replacement worker to need on-the-job training and perhaps several years of experience before reaching the productivity level of the retiring worker. That being said, younger workers are generally more competent with technology, and are likely to be able to identify ways to make their work more efficient through increased automation, thus increasing productivity levels.

The retirement of the aging workforce and the replacement of retiring workers with inexperienced workers will reduce Montana's overall human capital available for use in our economy, making it critical that workers and businesses strive to continuously improve worker education and training to retain as much human capital possible. At the same time as we are losing experienced workers, Montana's jobs are expected to become more knowledge-based in the future, increasing the need for workers with higher levels of education. Figure 17 illustrates the education level required to fill the jobs in the current job market, compared to the job mix expected in 2015 and 2022. Although the number of job openings is higher for jobs requiring low-education levels than for jobs requiring high levels of education and training, the shift in jobs over the next ten years will require Montana's workforce to become more educated. The percentage of jobs requiring higher than a high school diploma will increase from 28.2% in 2013 to 29.1% in 2022, with the share of jobs requiring a bachelor's degree growing by half a percent.

Figure 17: Montana Jobs by Minimum Education Required, Current and Projected



Source: Montana Employment Projections 2013, Research and Analysis Bureau - MT Dept. of Labor and Industry

In general, Montana workers will likely be able to meet the future educational demands of jobs, as Montana's population tends to be fairly well-educated. Montana is ranked the best in the nation for the percent of the population with a high school diploma, and 20th in the nation for the percent of the population with a bachelor's degree or higher.[xv] Workers with higher levels of education face a better employment situation, with lower unemployment rates, higher wages, and lower likelihood of experiencing poverty. Workers with higher education levels are also more likely to demonstrate entrepreneurialism, thus contributing to Montana's high level of business startups. Continued emphasis on increasing educational attainment is needed, however, in order to address the loss of human capital from the retiring workforce and to remain competitive in the global economy.

Another lingering challenge in Montana's future is to reduce the number of workers who are long-term unemployed. Long-term unemployed workers are of particular concern because finding a job gets harder the longer a person is unemployed. Many of the long-term unemployed end up dropping out of the labor force completely, representing a permanent loss of human capital in our economy. The loss of these workers is of particular concern when Montana is facing future worker shortages and loss of experience as Montana's aging workforce retires. The Montana Department of Labor and Industry is working to keep the long-term unemployed in the labor force and prevent the loss of these workers and their human capital.

Conclusion

Labor Day 2014 brings with it continued good news about Montana's economic performance. Job growth in 2013 continued at above-average pace, with record-breaking job growth in the first half of 2014. Montana continues to outperform the nation in terms of job growth, wage growth, GDP growth, personal income growth, and other measures. Montana employment levels are now above the pre-recession peak. Montana entrepreneurs continue to start new businesses and add jobs to Montana's economy. Montana is poised to improve prosperity in the years to come.

Although the recession is in our rear-view mirror, lingering concerns remain. The construction industry is growing and adding jobs, but is still experiencing a high rate of business closures, driving up Montana's overall business closure rate. While Montana entrepreneurs do an excellent job of starting businesses, we need to do a better job ensuring those businesses grow to larger employment sizes to maximize the impact of entrepreneurialism in our economy.

There are also lingering concerns about the rate of worker hires and separations, which remain below pre-recession levels even though the labor market situation has improved. Workers are not leaving their jobs, and employers are not hiring new workers, at the same rate as before, which may be a result of structural unemployment, skills mismatches, or labor market frictions that are preventing employers from finding workers (and vice versa). Finally, Montana is facing slower economic growth in the future due to the loss of human capital and lower number of workers due to an aging workforce. Efforts must be made to increase labor force participation rates, and enhance and protect human capital so that it can be utilized for our economic productivity.

The future brings with it continued challenges for our economy, but Montana's workers and businesses are ready to meet this challenge. With a strong and improving economy, a well-educated and trained workforce, and investments in our state by businesses, Montana will continue to outperform the nation in our economic growth, strengthening our economy and making Montana an even better place to live and do business.

Sources

[i] All state-level unemployment, labor force, and total employment figures come from the Local Area Unemployment Statistics, Bureau of Labor Statistics and the Montana Department of Labor and Industry. U.S. unemployment, labor force, and total employment statistics from the Current Population Survey, Bureau of Labor Statistics.

[ii] Payroll employment figures come from the Quarterly Census of Employment and Wages, Bureau of Labor Statistics and the Montana Department of Labor and Industry.

[iii] Employment forecasts produced by the Montana Department of Labor and Industry and available at www.lmi.mt.gov.

[iv] Personal income and GDP figures from the Bureau of Economic Analysis, U.S. Department of Commerce.

[v] All data on federal spending in Montana from USASpending.gov.

[vi] Businesses are coded into the North American Industry Classification System (NAICS) based on the type of goods and services produced by the business. The coding change impacted payroll services firms, who process payroll and pay payroll taxes on behalf of their clients. The employment of the client business was previously coded as business services as though they were working for the payroll services firm, but is now correctly coded under the NAICS of the actual employer (the client). The change moved roughly 2,000 workers from business services into a number of industries that use payroll services, with the largest increase occurring in construction.

[vii] Wage data from the Quarterly Census of Employment and Wages, Montana Department of Labor and Industry.

[viii] Current Population Survey, compiled by the Montana Department of Labor and Industry. Data included compares Aug. 2013 through July 2014 to Aug. 2006 to July 2007.

[ix] Bureau of Labor Statistics. August 2014. "Multiple jobholding in states in 2013" Monthly Labor Review. Available at www.bls.gov/opub/mlr/2014/article/multiple-jobholding-in-states-in-2013.htm.

[x] Business Employment Dynamics, Bureau of Labor Statistics

[xi] Current Population Survey micro data available through DataFerret, U.S. Census Bureau. Compiled by the MT Dept. of Labor and Industry using data from a two-year timeframe ending in May 2014.

[xii] Quarterly Workforce Indicators, Employment by Firm Age, U.S. Census Bureau and the Bureau of Labor Statistics. Data compiled by the Montana Department of Labor and Industry. Employment totals from 2012Q3 through 2013Q2.

[xiii] Medical Expenditure Panel Survey, U.S. Dept. of Health and Human Services and National Compensation Survey, Bureau of Labor Statistics.

[xiv] Population by age from the U.S. Census Population estimates. Labor Force data from the Local Area Unemployment Statistics annual labor market situation by demographics table.

[xv] 2012 American Community Survey, 1-year estimates, U.S. Census Bureau

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