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### **The Strength of the Montana Economy**

Those who analyze the Montana economy by staring into the rear-view mirror, including the spokespersons for the industries that dominated both the Montana economy and its political system in the past, have been seeing and preaching economic doom and gloom for two decades or more. Unless we can return to the glorious days of the past when mining, logging, farming, and ranching and the manufacturing associated with them dominated our economy, jobs will shrink, people will leave, and those who remain behind will float into the backwaters of the national economy. Or so we have been repeatedly told.

As the national economy slipped into recession in December of 2007, a year and a half ago, and plunged into a financial crisis almost eight months ago, the Montana economy has been put to the test in terms of its health and stability. Forest products mills have shut down, mineral exploration and development has been discouraged by falling commodity prices, and construction activity has plummeted as home building has ceased and commercial building has been put on hold.

We clearly have not escaped the national and international economic collapse. But when we look across the nation, county by county, Montana has been doing amazingly well. Economists working with the Associated Press have put together a county *economic stress index* that combines information on local unemployment, home foreclosure, and bankruptcy rates. While most of the

counties in the West coast states, the Great Lakes region, and the Deep South show 10 to 20 percent of households being impacted by this group of economic curses, most of Montana's counties are in the 5 to 10 percent range.

Our seven most populous counties, in which 62 percent of the state's population lives, have combined unemployment, foreclosure, and bankruptcy rates closer to 5 percent than 10 percent except for the Kalispell area where this stress index was 13 percent. Actually, the Flathead Valley was at the heart of the most economically stressed region of Montana where Flathead, Lincoln, and Sanders counties together had almost 16 percent of households impacted.

Individual economic indicators continue to show that Montana is weathering the national economic crisis relatively well. The national unemployment rate, for instance, is almost 50 percent above ours. The national unemployment rate has continued to rise steeply while ours has been more or less stable since the beginning of the year. Although data on in-migration is dated, almost a year old now, Montana was the 14<sup>th</sup> fastest growing state between the middle of 2007 and the middle of 2008. Given that the national recession actually started in December of 2007, this growth in Montana, mostly due to net in-migration, during the first part of the recession may reflect the recession's delayed impact on Montana.

One of the reasons that Montana has fared relatively well during this recession and actually skipped the last two recessions altogether is actually due to a characteristic of our economy that we are constantly told is a serious flaw: Our relatively low reliance in manufacturing jobs. Among the 50 states, Montana

has the fourth lowest percentage of jobs in manufacturing. Only Wyoming, Alaska, and Hawaii have a lower reliance on the manufacturing sectors.

As the national economy slows, the demand for manufactured goods slows too, leading to rising inventories of parts and materials in businesses and rising inventories of consumer durable goods on retail outlets' shelves. Orders for new production are reduced and manufacturing plants have to cut back on production, laying off workers. The reduced spending by families with laid off workers or families fearing they may be next, reduces demand for manufactured goods still more, and the cycle of economic contraction continues. Manufacturing industries are often the primary conduit by which national recessions are imported into local economies.

Across the United States, the more dependent a state is on manufacturing for employment, the higher is the current unemployment rate. Michigan leads all the states in both the percentage of jobs in manufacturing, 16 percent compared to Montana's 6 percent, and leads the states in the level of unemployment, too, 12.7 percent, more than twice Montana's 6.1 percent.

Maybe we need to be a bit more careful about what we wish for in our economy. The Montana economy over the last two decades has avoided the extremes. We have not boomed the way Nevada, Arizona, or California, for instance, did. As a result, we are not burdened by widespread home foreclosures and double-digit unemployment rates. Our growth has been slower, but it has also been steadier. For those who enjoy roller coaster rides that may make Montana an economically less exciting place to live. But I suspect that most

Montanans have little desire to participate in the economic chaos that has since hit many of the previously booming areas of the West. That isolation from many of the extremes of the nation is one of the things that makes Montana the “last best place.”