



2023 MONTANA --- LABOR DAY REPORT



Montana Department of
LABOR & INDUSTRY

2023 MONTANA

LABOR DAY REPORT

September 2023

STATE OF MONTANA

Greg Gianforte, Governor

MONTANA DEPARTMENT OF LABOR & INDUSTRY

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EXECUTIVE SUMMARY

On Labor Day 2023, the Montana economy continues its strong expansion. Employment is at an all-time high, unemployment rates have reached record lows, and economic production continues to grow at a steady pace despite tight labor markets and inflationary headwinds. Extraordinary job growth and accelerated wage growth have strengthened Montana households and supported continued economic expansion throughout the state. Labor market highlights include:

- In 2022, Montana added 20,900 jobs – the most of any year in state history. Montana ranked 8th among states for employment growth in 2022, posting 3.9% growth.
- The unemployment rate fell to a record-low 2.3% the first quarter of 2023, with the number of unemployed Montanans also hitting a record low of nearly 13,000.
- Tight labor market conditions persisted in 2022, with nearly three job openings for every one unemployed person.
 - The state's aging population and increased retirements has driven long run declines in labor force participation, further exacerbating the state's workforce shortage. The number of retirees in the state surpassed 200,000 in 2022.
- Record low unemployment rates have increased competition for workers and driven up wages. The average wage for Montana workers rose by over 6% in 2022, the 4th fastest among states.
 - The average wage earned by Montana workers reached \$54,525 in 2022.
 - Inflation outpaced wage growth in 2022, resulting in real average wage declines of 1.6%.
- Montana's labor force has never been larger, with over 575,000 Montanans working or seeking work. Strong wage growth and a significant uptick in in-migration has helped increase the available pool of workers for Montana businesses.
 - Montana ranks 2nd in the nation for the largest percentage of in-migration from 2020 to 2022. Over 40,000 more people moved to the state than left from 2020 to 2022, translating to 3.8% of the Montana's population.
 - About 65% of people who recently moved to the state are either employed or actively seeking work, which is higher than the labor force participation rate of existing residents.

The strength of Montana's labor market help support economic growth in the state. Business formation reached a record high, which propelled economic output to new heights. Continued growth in the Montana economy translated to more income for Montana households. Strong household balance sheets helped offset the impact of rising prices, allowing Montanans to continue spending to support the overall economy.

- The Montana economy grew by 1.6% in 2022, as measured by real gross domestic product.
 - The economy contracted slightly during the first two quarters of 2022, as inflation and the conflict in Ukraine were a drag on economic growth. However, growth turned positive in the second half of the year as inflation moderated.
 - The first quarter of 2023 shows continued economic strength, growing by 6% and ranking 5th in the nation for fastest growth.
- Business formation in Montana reached a record high in 2022, with new business applications exceeding 20,000 in 2022.
 - Montana boasts the 3rd highest rate of business ownership among states.
- Personal income grew by 3.1% in 2022 – ranking Montana 19th in the nation for fastest personal income growth.
 - On a per capita basis, average income rose to \$57,719 in 2022 – ranking 29th highest among states.
- One of the primary headwinds to economic growth in Montana and across the U.S. during 2022 was inflation. Inflation reached a forty-year high of 9.1% in June of 2022. Since then, changes in monetary policy and easing of supply chain bottlenecks have caused inflation to moderate. As of June 2023, inflation has fallen to 3% over-the-year.
- Montana ranks 8th among states for fastest home price appreciation since 2020. The typical home value in Montana averaged \$440,000 in the first quarter of 2023, up 51% from three years earlier.

Montana's economy has shown strong expansion over the last few years. Although rising prices and tight labor markets have dampened economic enthusiasm, Montana's labor market has continued to grow. Workers continue to enjoy plentiful opportunities for high-wage jobs and businesses continue to thrive. Through productivity improvements, investments in worker training, and tapping into underutilized labor sources, Montana's economy will continue to flourish.



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A MESSAGE FROM **COMMISSIONER SWANSON**

Dear Governor Gianforte,

It is my privilege to submit the Montana Department of Labor & Industry's 2023 Labor Day report to you. The Montana economy has experienced record-breaking growth under your leadership, with employment at an all-time high, historically low unemployment rates, growing entrepreneurialism, and steady economic growth despite tight labor markets and inflationary headwinds.

Montana's economy continued its strong expansion in 2022. More jobs were added in 2022 – 20,900 jobs – than in any other year in history. The unemployment rate fell to a record-low 2.3% the first quarter of 2023, with the number of unemployed Montanans also hitting a record low of nearly 13,000.

Extraordinary job growth and accelerated wage growth have strengthened Montana households and supported continued economic expansion throughout the state. Personal income grew by 3.1% in 2022 – ranking Montana 19th in the nation for fastest personal income growth. Entrepreneurialism continued to propel economic growth, with business formation in Montana reaching a record high in 2022.

An essential ingredient in continued economic growth is ensuring businesses have access to a skilled and experienced workforce. There are more Montanans working than ever before, and the size of the labor force has reached record heights. The Montana Department of Labor & Industry is proud to continue our work to upskill and train more Montana workers to ensure the state economy can continue to grow.

Thank you for your leadership of our state's economy and commitment to the prosperity of Montana's businesses and workers.

Sincerely,

A handwritten signature in black ink that reads "Sarah Swanson". The signature is written in a cursive, flowing style.

Sarah Swanson
Commissioner
Montana Department of Labor & Industry

LABOR DAY REPORT

INTRODUCTION

The Montana economy continued its strong expansion in 2022. Employment reached an all-time high, unemployment rates fell to record lows, and economic production continued to grow at a steady pace despite tight labor markets and inflationary headwinds. In 2022, Montana added 20,900 jobs – the most of any year in state history. The first half of 2023 shows continued strength in the state’s labor market. Halfway through 2023, Montana has added over 8,000 jobs and seen nearly 6,900 new workers enter the labor market.

More Montanans are working than ever before, and worker wages are rising quickly. Yet, tight labor markets pose a more persistent challenge to economic growth moving forward. As of the middle of 2023, there were nearly three job openings for each unemployed Montanan. Inflation also presented a significant headwind to economic growth in 2022, reaching a forty-year high mid-way through the year. On Labor Day in 2023, the Montana economy shows continued resiliency despite these challenges. A strong economy has created greater opportunities for Montanans throughout our state.





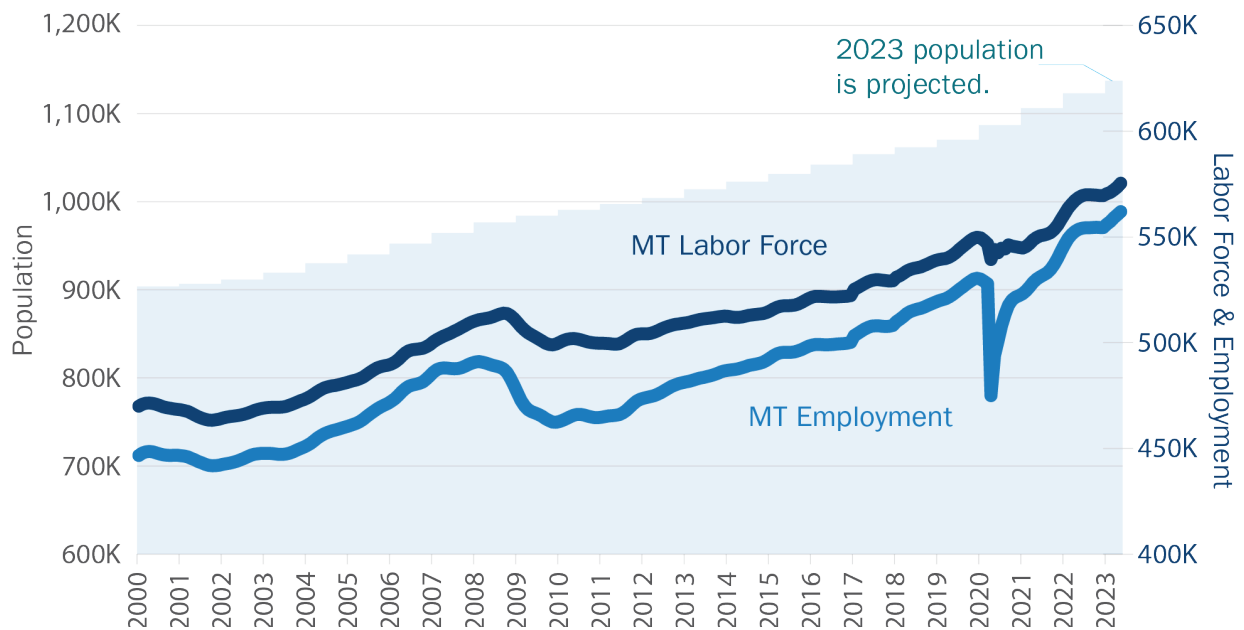
SECTION 1:

MONTANA LABOR MARKET

2022 was a year of extraordinary growth in the Montana labor market. The state added over 20,000 jobs in 2022 – the most jobs added in one year in the history of the data series. To put this record-breaking growth into historical perspective, in the decade of expansion prior to the pandemic employment grew by an average of 7,100 jobs per year. Montana’s 2022 job growth was nearly three times that pace.

Rapid employment growth in the post-pandemic era means there are now more Montanans working than ever before. **Figure 1** shows the change in Montana’s population, labor force, and employment levels over the past twenty years. Through the first half of 2023, the Montana economy employed over 68,000 more people than it did three years earlier. This is the same number of jobs added during the entire decade of expansion following the Great Recession in 2009.¹

Figure 1. Montana Population, Labor Force, and Employment Growth since 2000

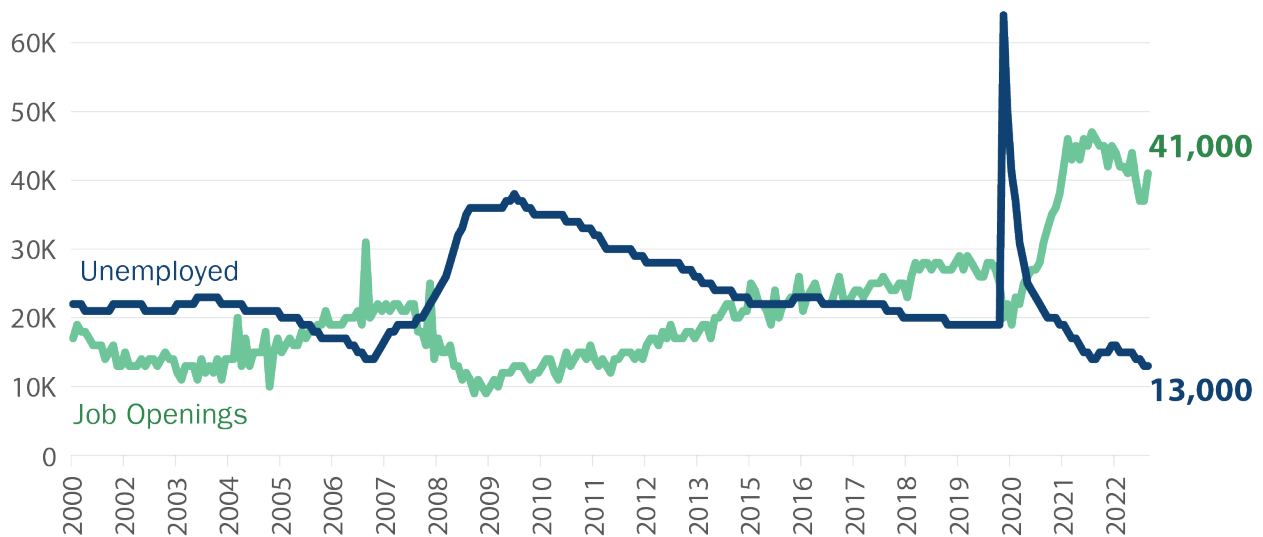


Source: US Census Bureau and Local Area Unemployment Statistics (LAUS)

Strong employment growth over the last few years was accompanied by growth in the state’s population and labor force. The state’s labor force has grown by over 30,000 in the last three years. Strong wage growth and a significant uptick in in-migration has helped increase the available pool of workers for Montana businesses. However, labor force growth has not been sufficient to keep up with rising worker demand, leading to a record low number of unemployed and over two job openings per every unemployed person.

Figure 2 shows the number of job openings relative to the number of unemployed people in the state.

Figure 2. Number of Job Openings and Unemployed Persons in Montana



Source: JOLTS and LAUS, January 2000 to April 2023. Unemployment level is rounded to the nearest thousand.

Like much of the nation, Montana is experiencing very tight labor markets with few workers available to fill open positions. Montana’s workforce shortage has persisted for the better part of the last decade but has become more severe since the pandemic as the gap between the number of job openings and unemployed people has widened. In March of 2023, the state’s unemployment rate fell to 2.3%, the lowest observation since the data began being collected in 1976. The number of unemployed workers dropped to nearly 13,000, also a new low. Without enough workers, businesses are not able to

fully meet the demand for their goods and services, dampening economic growth. The U.S. and Montana unemployment rates since 2000 are illustrated in **Figure 3**, both of which are at or near historic lows.

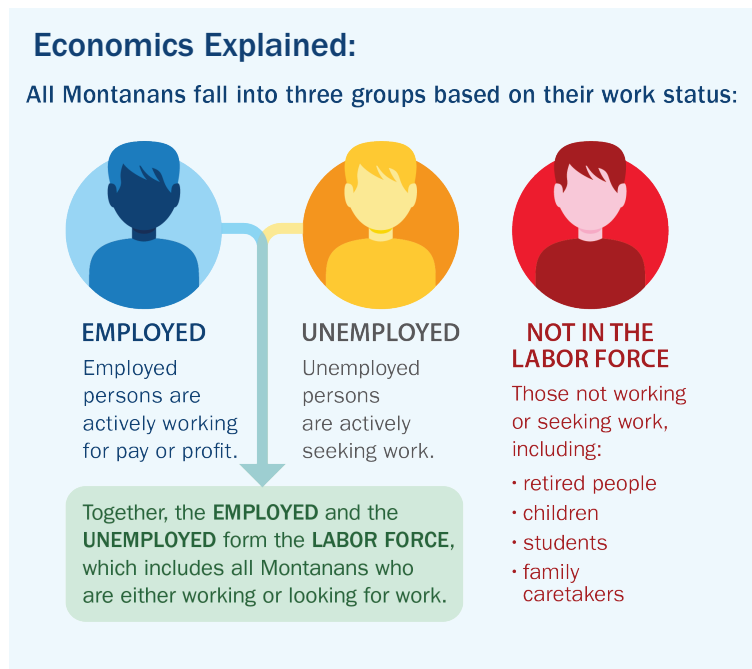
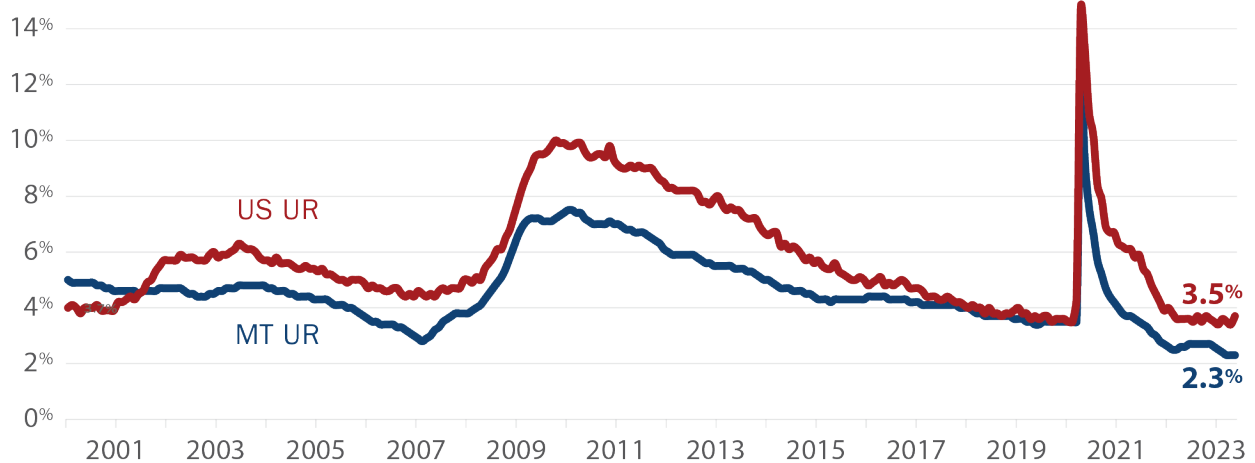


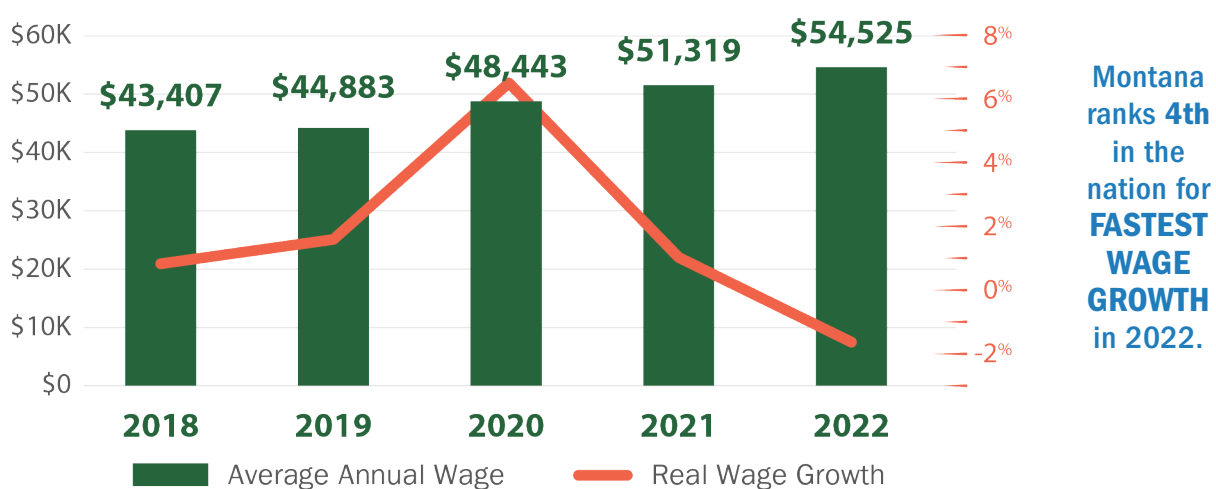
Figure 3. Unemployment Rate for MT and US



Source: BLS Local Area Unemployment Statistics, through July 2023.

Record low unemployment rates have increased competition for workers and driven up wages. The average wage earned by Montana workers grew 6.2% in 2022, the 4th fastest among states. Rapid wage growth helped to dampen the impacts of inflation, which reached a forty-year high in the middle of 2022. On an inflation-adjusted basis, real wages fell 1.6% in 2022 but remained positive over the long-run. Since 2019, real wages grew by an average of 2% per year. Real wage growth over the long-term suggests that coming out of the pandemic recession Montana workers have been able to afford more goods and services with their wages than before, increasing their standard of living. The average annual wage reached \$54,525 in 2022 (Figure 4), ranking 44th highest among states – the highest wage ranking Montana has achieved in the history of the data series.

Figure 4. Montana's Average Annual Wage and Real Growth



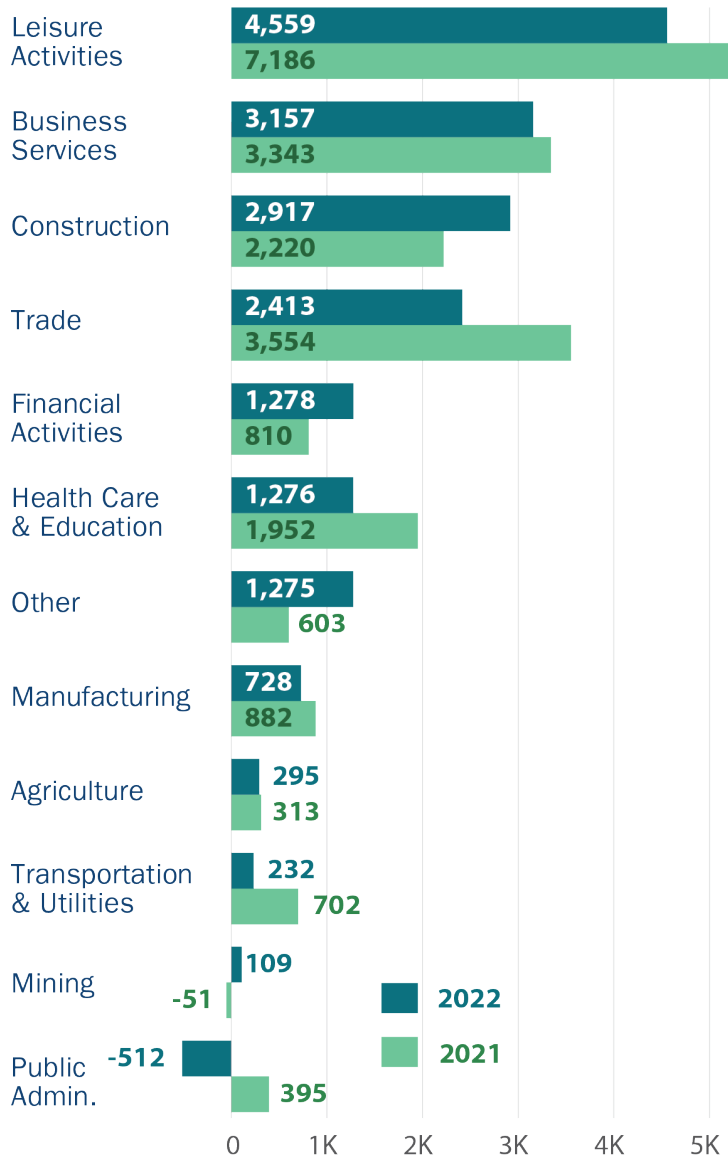
Source: US BLS and Montana Dept. of Labor and Industry, QCEW and CPI-U.

Significant wage gains over the last few years has encouraged some Montanans to enter the labor force. In 2022, about 42% of unemployed Montanans were looking for work after a period out of the labor force – the highest percentage since 2005.² Some of these individuals are looking for their first job out of school, while others are re-entering the labor force after being retired or taking care of family.

Employment by Industry

Montana’s record-breaking employment growth in 2022 was generated by job growth in several of the state’s high-demand industries. Construction, leisure activities, and business services were key contributors to Montana’s job growth in 2022, making up 60% of total job gains. However, job growth was not isolated to a few high-performing industries. Nearly all industries experienced job growth in 2022 and have surpassed pre-pandemic levels of employment (Figure 5).

Figure 5. Montana Payroll Job Growth by Industry



Source: Quarterly Census of Employment and Wages.

Leisure activities added the most jobs in 2022, with over 4,500 additional jobs in the industry compared to the previous year. The demand for restaurants, hotels, and recreation took off once the pandemic-related travel restrictions and social distancing requirements were lifted. As a result, businesses have been hiring quickly to keep up with elevated demand. The rate of hiring slowed to 6.8% from leisure activities’ record-breaking pace of 12% employment growth in 2021. Despite this slow down, leisure activities was the largest contributor to employment growth in 2022.

The business services industry, which includes professional services, waste management, and temp agencies, was the second largest contributor to employment growth in 2022. The industry added over 3,300 jobs during the year. Employment gains were coupled with significant wage growth in this industry. Worker wages in business services grew by 2% on an inflation-adjusted basis, which is the fastest of any industry in 2022.

Construction employment grew the fastest among industries last year in response to the pandemic-related surge in housing demand, averaging 8.3% job growth in 2022. The construction industry added over 2,000 jobs in 2021 and 2022, more than doubling the industry’s pre-pandemic trend. Construction was one of only a few industries that picked up the pace of hiring in 2022, alongside financial activities and mining.

Construction Jobs Vital to Continued Economic Growth

The construction industry plays a critical role in economic development efforts across the state – including increasing the supply of affordable housing, improving broadband internet access, and other critical infrastructure investments throughout Montana. Significant demand for construction workers in Montana has led to some of the fastest employment growth in the nation.

Construction jobs grew by



Montana ranks **2nd** among states for fastest employment growth!

The construction industry offers competitive wages, with an average annual wage of \$65,000 in 2022. Wages in construction have been growing rapidly, even outpacing inflation, as a result of the significant demand for workers and limited supply. Construction worker wages grew by 1.5% on an inflation-adjusted basis over the last year.

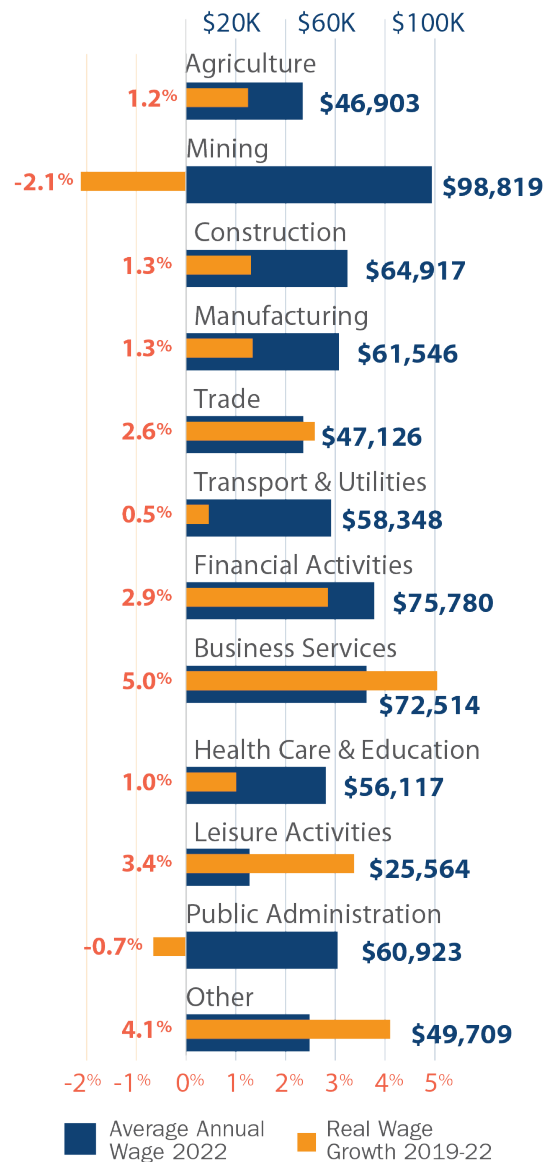


MTDLI projects over **1,000** new construction job openings per year through 2032 – the most of any industry in the state!

The success of many economic development projects and infrastructure investments throughout Montana will depend on the availability of a highly-skilled construction workforce to fill these critical job openings.

The demand for construction workers drove significant wage gains in 2022. Construction worker wages grew by 1.5% on an inflation-adjusted basis over the last year. Construction was one of only two industries to experience positive real wage gains in 2022, alongside the business services industry. Inflation outpaced wage growth in all other industries in 2022, resulting in real wage losses over the year. However, wage gains are still positive on an inflation-adjusted basis for workers in most industries since 2019 (Figure 6).

Figure 6. Montana's 2022 Average Annual Wage with Growth, by Industry



Source: US BLS and MTDLI, QCEW and CPI-U.

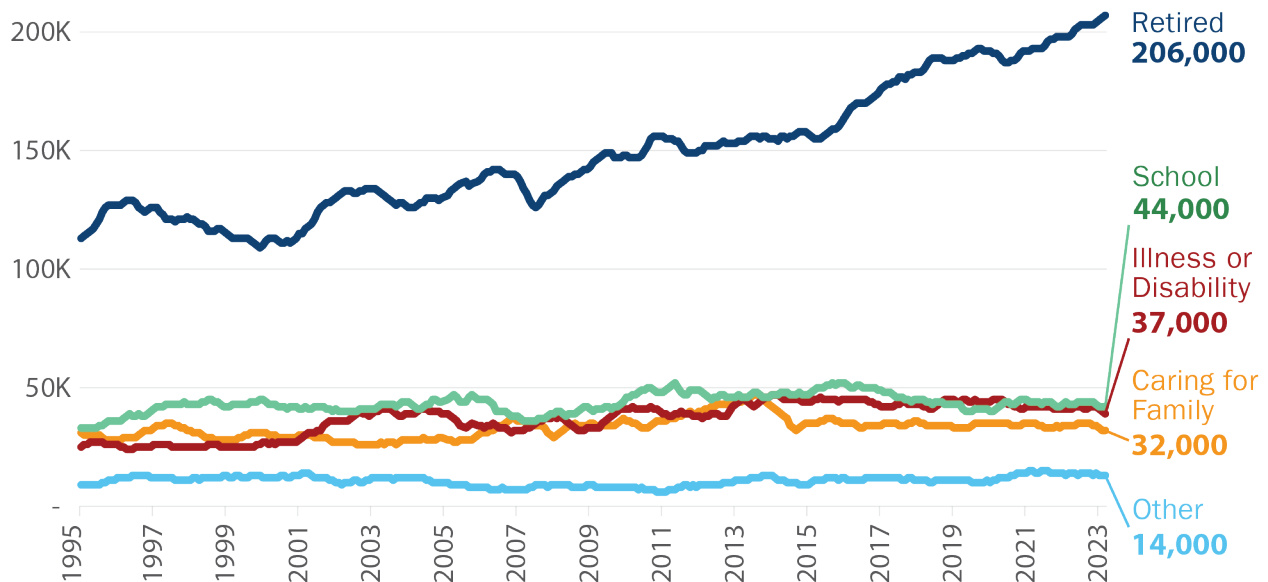
Labor Force Participation

Montana's labor force has never been larger, with over 575,000 Montanans working or seeking work in the first half of 2023. However, tight labor markets persist due in large part to a long-run decline in the state's labor force participation rate. As the Montana population has aged, a larger share of the population has reached retirement age and exited the labor force, causing a decline in the labor force participation rate overall.

The number of retirees has been steadily increasing in Montana since the 1990s, reaching over 200,000 in 2022 (Figure 7). About 62% of all Montanans not participating in the labor force are retired.³ Other reasons Montanans do not participate in the labor force include attending school, illness or disability, and caring for family. The number of Montanans citing these other reasons has remained relatively stable over time despite population growth.

A greater share of Montanans over age 65 are working, compared to older populations in other states. Montana ranks 6th across states by share of the working aged population over 65, with almost a quarter of working aged adults over 65. However, labor force participation rates for Montanans over 65 still fall significantly below participation rates of prime working aged adults (age 25 to 54 years old). As more of the population falls within the older age groups, the labor force participation rate declines overall.

Figure 7. Population Not Participating in the Labor Force by Main Reason



Source: IPUMS Current Population Survey, Jan 1995- May 2023. Twelve-month moving averages, rounded to the nearest thousand.

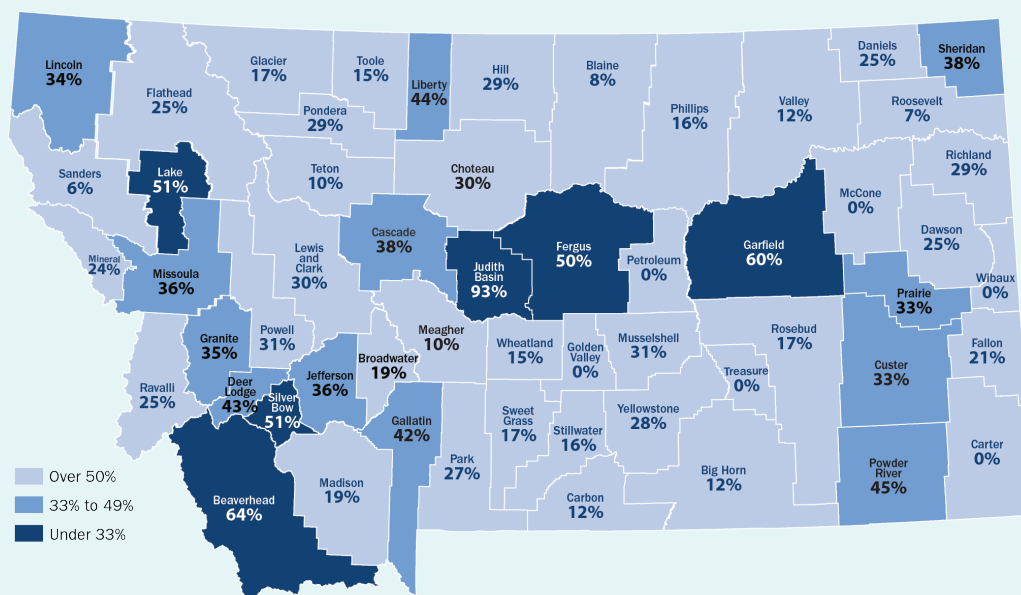
While the statewide labor force participation rate has been declining over the long-run, labor force participation within age groups has remained stable or increased over the last few years. Pandemic-related closures and health concerns caused a sudden drop in the labor force participation rate in April 2020. However, labor force participation rates have reached or exceeded pre-pandemic levels in every age category as of June 2023 (Figure 9).

Childcare Availability Limits Workforce Engagement

Childcare provides critical support to the Montana economy, allowing parents of young children to participate in the labor force and preparing the future generation of workers through high-quality early childhood education. A national shortage of childcare capacity has raised costs for families and left many unable to access affordable care – and Montana has not been immune to the challenges. Licensed childcare capacity in Montana has been consistently undersupplied despite its essential role in supporting the statewide workforce. In 2022, licensed childcare capacity met only 43% of estimated demand.

Childcare shortages exist in every county, with 67% of counties identified as childcare deserts – meaning supply meets less than a third of estimated demand. The most significant unmet demand occurs in the more rural areas of the state. There are six counties without a single licensed childcare provider. The map below shows licensed childcare capacity as a percent of demand by county.

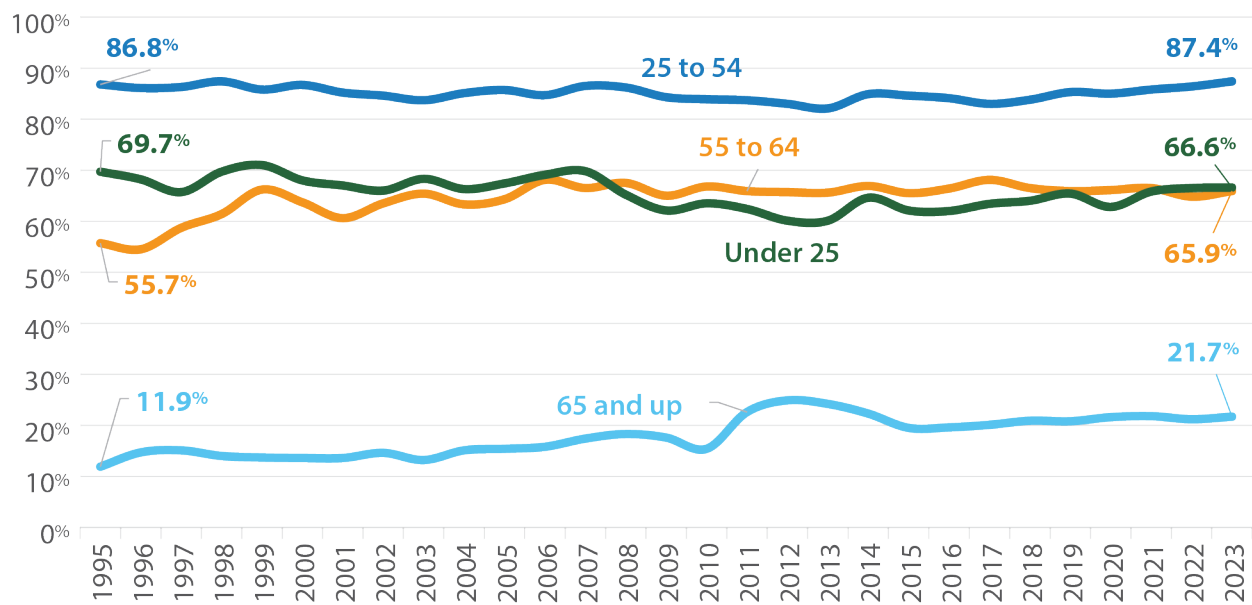
Figure 8. Childcare Capacity as a Percent of Demand by County, 2022



Source: Produced by the MTDLI. Childcare Capacity Data Provided by MT DPHHS as of 12/2022. Demand is equal to the number of children under age six living in working parent households.

A lack of high-quality childcare in Montana has prevented many parents from fully participating in the labor force, thus further exacerbating the state’s workforce shortage. In 2022, approximately 68,000 Montana parents were unable to fully engage in the workforce due to family responsibilities and a lack of childcare. Access to quality, affordable child care is critical to Montana’s growing economy. Recent actions by Governor Gianforte, such as a \$7 million investment into the state’s Best Beginnings program, an effort to reduce red tape and barriers for child care workers, and the growth of child care apprenticeships, will help ease the burden on Montana families and allow more parents to participate in the workforce.

Figure 9. Labor Force Participation Rates by Age Group in Montana



Source: IPUMS CPS through June 2023. Labor force participation rates calculated as the 12-month moving average ending May 2023.

Montanans aged 25 to 54 years old have the highest labor force participation rates. About 87.4% of these prime working age adults participated in the labor force through the first half of 2023, which has been steadily increasing over the last decade. Younger workers under 25 years old typically have lower labor force participation rates because of school attendance. Although labor force participation rates for younger workers remain below rates of prime working aged adults, the labor force participation among young workers has been increasing over the last few years – reaching 66.6% in June 2023.⁴

The labor force participation rate of those between 55 and 64 is similar to the participation rate of young workers, hovering around 66% in the first half of 2023. Retirements are more common among this age group compared to those under 55. However, Montanans are working longer than they used to. Labor force participation rates for those 55 and older have increased by ten percentage points since the 1990s.

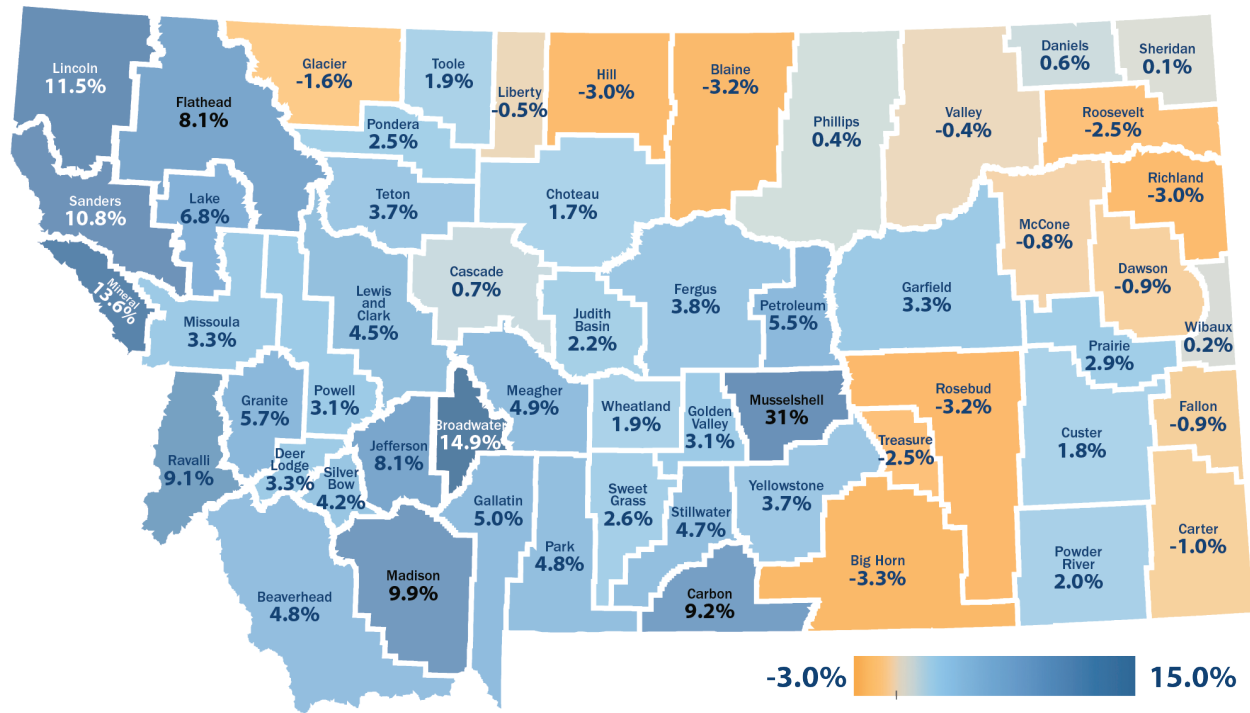
Migration to Increase Labor Supply

Montana’s record breaking employment growth in 2022 was made possible in part by significant in-migration. In-migration has helped address the state’s workforce shortage by increase the pool of available workers in the state. During the pandemic, in-migration rates accelerated to over three times the long run average. Over 40,000 more people moved to the state than left from 2020 to 2022, ranking Montana 2nd in the nation for the largest percentage (3.8%) of net in-migration.⁵ In the decade prior to the pandemic, Montana averaged about 6,300 net in-migrants per year.⁶

Most people moving to Montana participate in the state’s labor force, thus increasing labor supply. About 65% of people who recently moved to the state are either employed or actively seeking work, which is higher than the labor force participation rate of existing residents.⁷ The demographic composition of these newcomers helps explain their higher labor force participation rate. Newcomers are younger than the

statewide average, helping to slow down the aging of Montana’s population. Only 8% of in-movers are over the age of 65, compared to 19% of the overall population. Approximately 41% of newcomers are prime working age, compared to 36% of existing residents.⁸

Figure 10. Net Migration as a Percent of the Population by County



Source: US Census Bureau, Annual Resident Population Estimates, Estimated Components of Resident Population Change, and Rates of the Components of Resident Population Changes for States and Counties: April 1, 2020 to July 1, 2022.

Most of the in-migration has occurred in the western portion of the state since the pandemic (Figure 10). Significant population growth in the state’s largest cities has spilled over into the neighboring counties. Among smaller counties with less than 30,000 people, those bordering larger urban areas had the fastest population growth over the last two years. Newcomers provide an important source of labor supply to help address the state’s longstanding workforce shortage in all areas of the state.

Regional Labor Markets

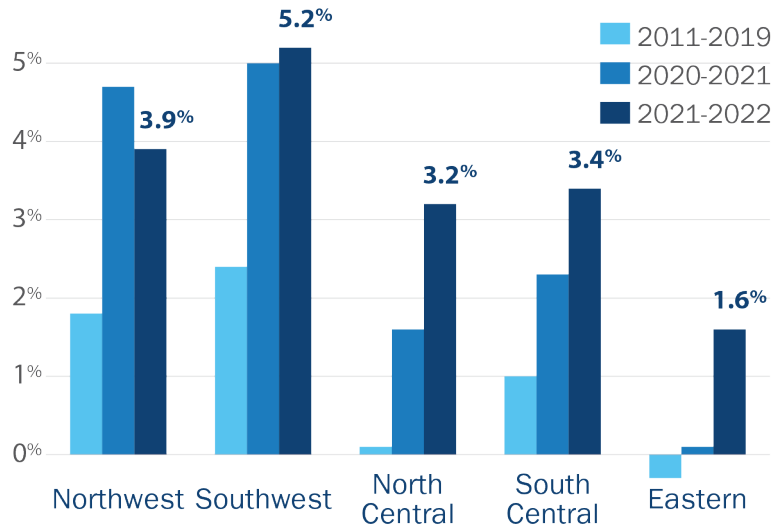
Accelerated in-migration has translated to labor force growth throughout Montana. From 2021 to 2022 the labor force grew in every region, with the largest gains occurring in the western region of the state where much of the in-migration has been concentrated. Employment growth has also picked up throughout Montana. Every region of Montana experienced faster employment growth than labor force growth in 2022, resulting in declining unemployment rates throughout the state.

Montana ranks 2nd in the nation for the largest percentage of in-migration from 2020 to 2022.

The Southwest region had the fastest employment growth of 5.2% (Figure 11), adding 8,500 jobs in 2022. This region reported the lowest unemployment rate of 2.3%, indicating some of the tightest labor markets in the state. The Northwest region added 6,200 jobs in 2022, for an employment growth rate of 3.9%.

This employment growth combined with declines in the number of unemployed in Northwest Montana resulted in nearly a percentage point decline in the unemployment rate, down to 3.1% in 2022.

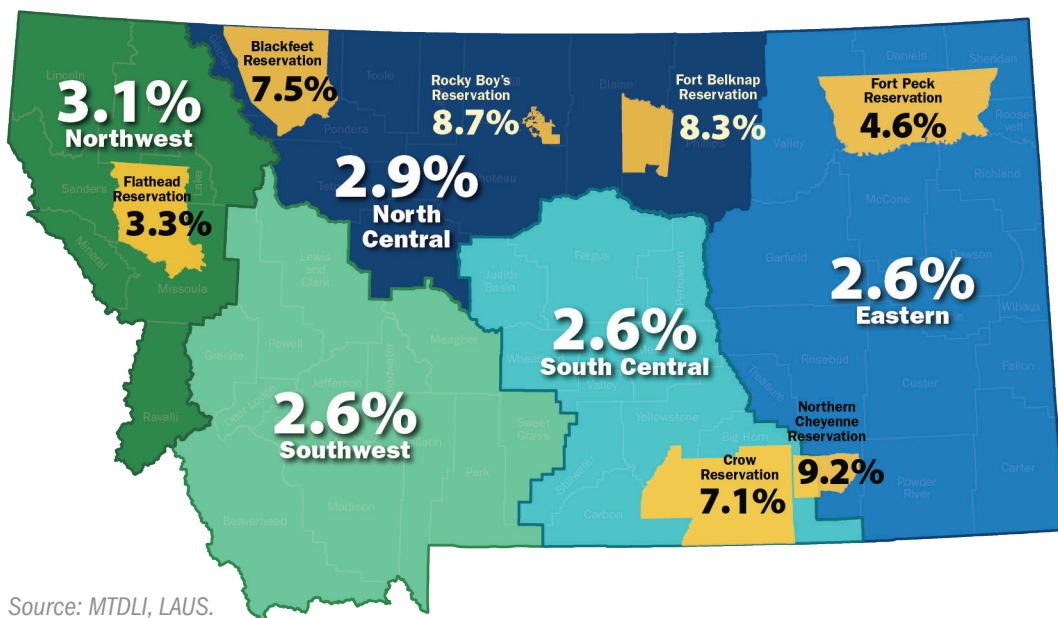
Figure 11. Employment Growth by Region, Annual Average



Source: MTDLI LAUS. Annual average growth rate from 2011 to 2019. Shown alongside annual growth in 2021 and 2022.

The North Central and South Central regions experienced similar rates of employment growth, and both regions reported unemployment rates below 3% in 2022—signaling tight labor markets. The Eastern region had more modest employment growth at 1.6%, which was still above the long-run trend in the region. The Eastern region also experienced a decline in the number of unemployed, and nearly a percentage point drop in the unemployment rate down to 2.6%. **Figure 12** shows the unemployment rate by region and reservation in 2022.

Figure 12. Montana Unemployment Rates by Region and Reservation, 2022



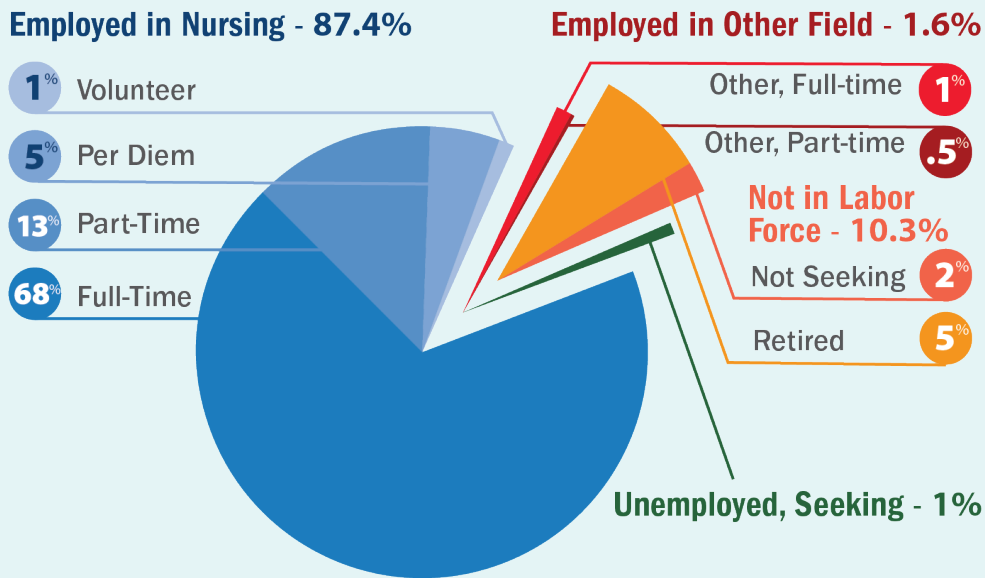
Source: MTDLI, LAUS.

Nursing Workforce

The COVID-19 pandemic highlighted the vital role nurses play in the state's healthcare system and economy. Ensuring the state's workforce is healthy and safe is critical to continued economic growth. However, the past few years have been significant and transitional for the nursing workforce.

There are over 20,000 actively licensed RNs and 2,300 actively licensed LPNs providing critical care to Montanans around the state. The unemployment rate for nurses falls well below the average for all occupations, indicating critical worker shortages. Only 0.8% of Montana's RNs and 1.1% of Montana's LPNs report that they are unemployed and actively seeking work (FIGURE 13), lower than 2.0% and 3.0% nationally.

Figure 13. Employment Status of Actively Licensed RNs in Montana



Source: National Council State Board of Nursing (NCSBN) 2022 Survey compiled by MTDLI.

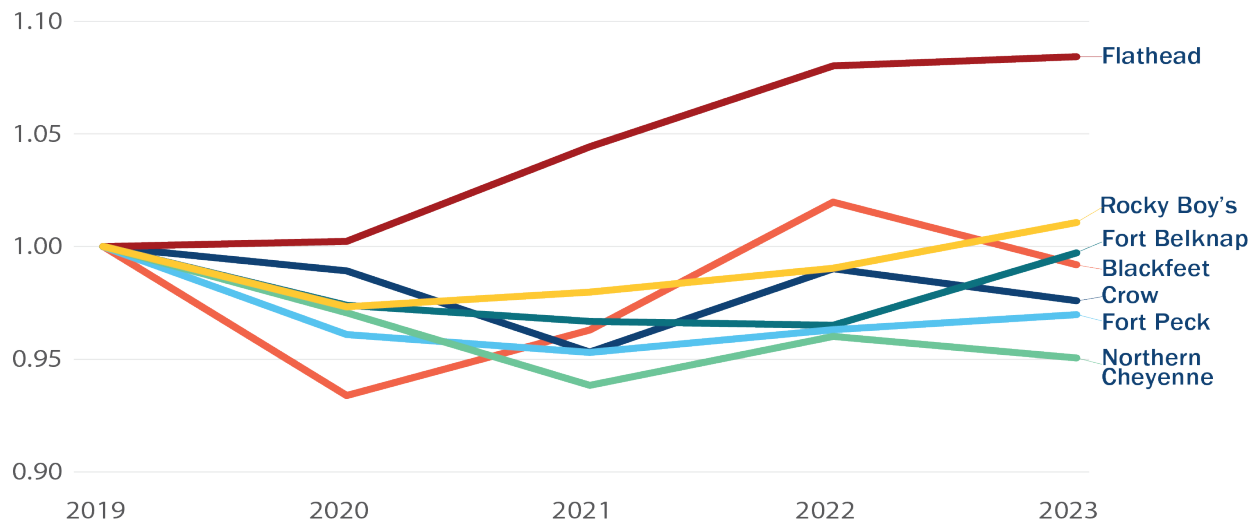
While nursing shortages persist in many areas of the state, positive steps are being taken to reduce the workload on nurses and build a sustainable pipeline of nurses for the future. For example, Carroll College in Helena has launched an accelerated, 15-month nursing track designed for adult learners that will rapidly equip future nurses with the skills they need to care for Montana patients.

For a more extensive report on the status of the nursing workforce in Montana, visit lmi.mt.gov/publications.

Unemployment rates also fell across all reservations. The change was most dramatic on the Crow reservation, which fell from 12.6% in 2021 to 7.1% in 2022. The unemployment rate on the neighboring Northern Cheyenne reservation also fell significantly in 2022 to 9.2% from 11.7% the prior year. Employment growth and a decline in the number of unemployed caused the unemployment rate declines on both reservation areas. Employment grew by 3.9% on the Crow reservation and by 2.3% on the Northern Cheyenne reservation in 2022.

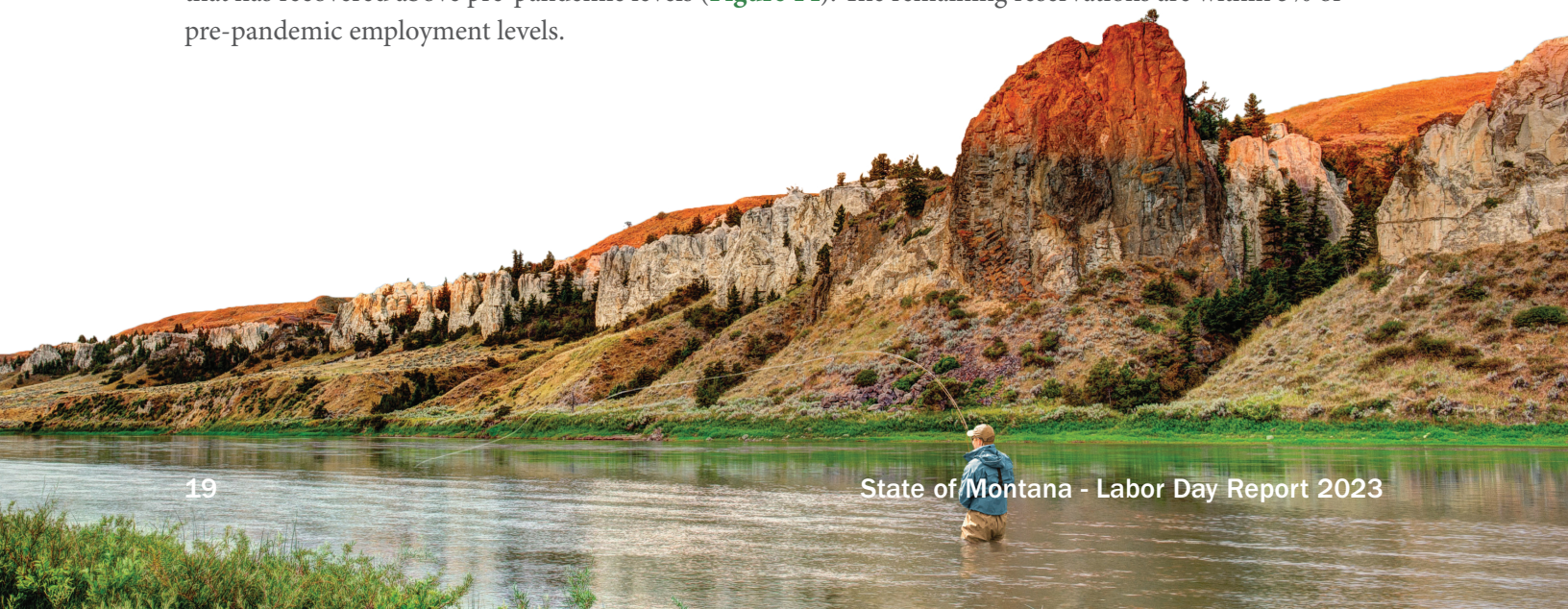
In the more Northwest area of the state, the Blackfeet and Flathead reservations also had large employment growth in 2022 at 5.9% and 3.4%, respectively. Job growth was more modest on the Rocky Boy's, Fort Belknap, and Fort Peck reservations, yet still outpaced labor force growth causing a drop in the unemployment rate. Despite declines in the unemployment rate, all of Montana's reservations had higher unemployment rates in 2022 than Montana's unemployment rate of 2.6%.

Figure 14. Employment on Montana Reservations, Indexed to 2019



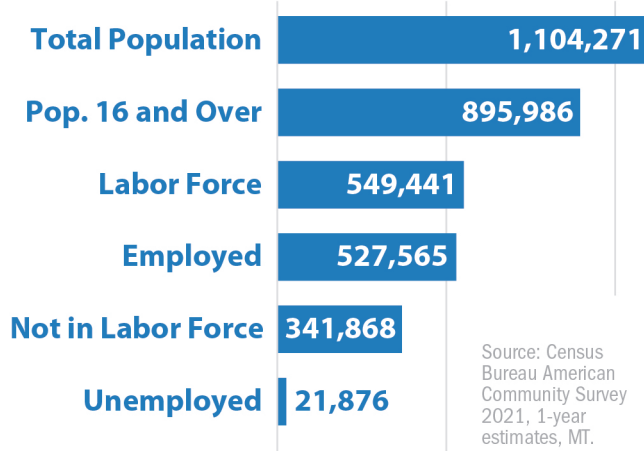
Source: MTDLI, LAUS

The first half of 2023 has brought more moderate employment growth on most of Montana's reservations. Fort Belknap and Rocky Boy's are the two reservation areas that began 2023 with above average employment growth. Overall, Flathead reservation and Rocky Boy's are the only two with employment that has recovered above pre-pandemic levels (**Figure 14**). The remaining reservations are within 5% of pre-pandemic employment levels.



The Montana Worker By the Numbers

Montana Population by Labor Force Status



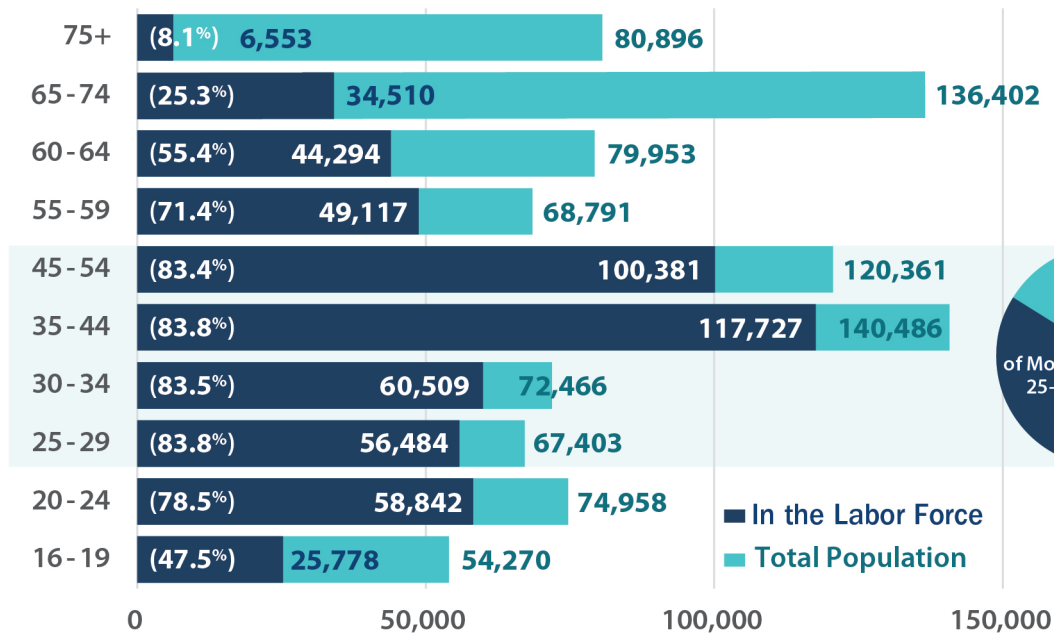
61.8% Employed or Available to Work

58.9% Employed

61.8% of Montana's working age population (16+) are working or available for work, ranking 35th among states by labor force participation rate. 58.9% are employed.

Both rates are slightly higher than the national average.

Population by Age Group and Participation in Labor Force



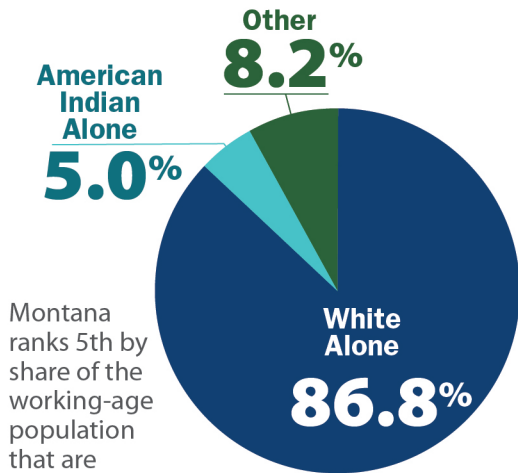
Source: Census Bureau American Community Survey 2021 1-Year Estimates. Labor force participation rates are in parentheses.

Almost **84%** of Montanans between 25-54 are working or available for work.

Montana ranks 6th by share of the working age in their retirement years, with 24% over the age of 65. Montana's labor force participation rate among younger workers is higher than many states, ranking 12th.

The Montana Worker By the Numbers

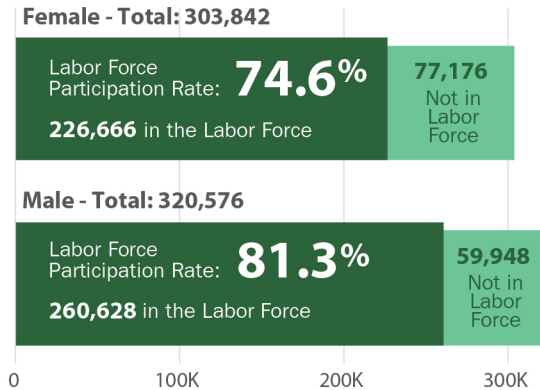
Working-Age Population by Race



Montana ranks 5th by share of the working-age population that are American Indian.

Source: Census Bureau American Community Survey 2021 1-year estimates. Montana.

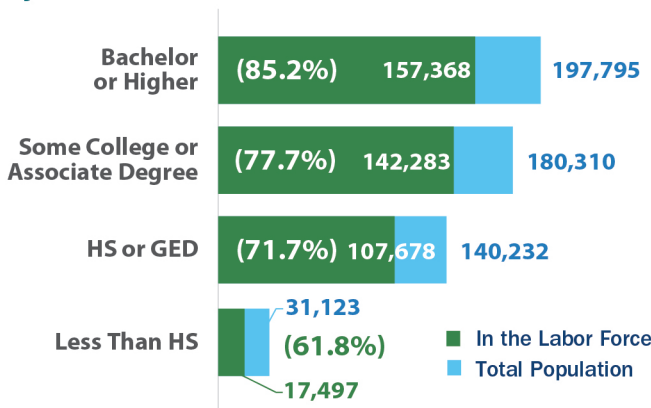
MT Population 16 and Older by Gender



Source: Census Bureau American Community Survey 2021, 1-Year Estimates. Population 20-64 years.

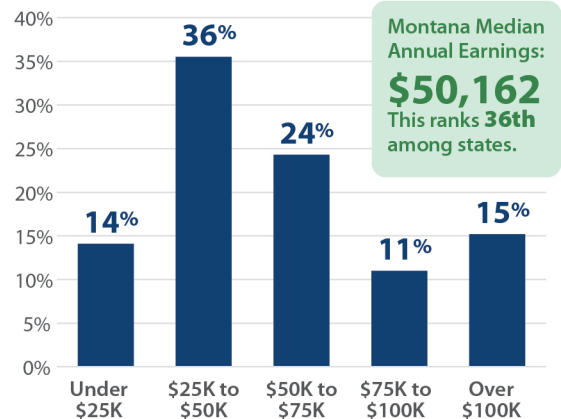
Montana has the smallest share of the working age population who are female compared to other states.

Population and Labor Force Participation by Educational Attainment



Source: Census Bureau American Community Survey 2021 1-year estimates, Montana, Age 25-64. Labor force participation rates are in parentheses.

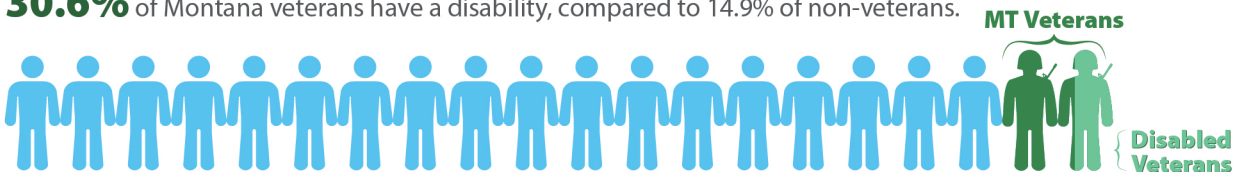
Montana Annual Earnings for Full-Time, Year-Round Workers



Source: American Community Survey 2021, 1-year data.

10% of Montanans 18 and up are veterans, which ranks Montana **3rd** among states by share of the veteran population. Veterans have a slightly lower labor force participation rate (76.7%) compared to non-veterans (78.3%), partially due to veteran's being older and having higher rates of disability.

30.6% of Montana veterans have a disability, compared to 14.9% of non-veterans.

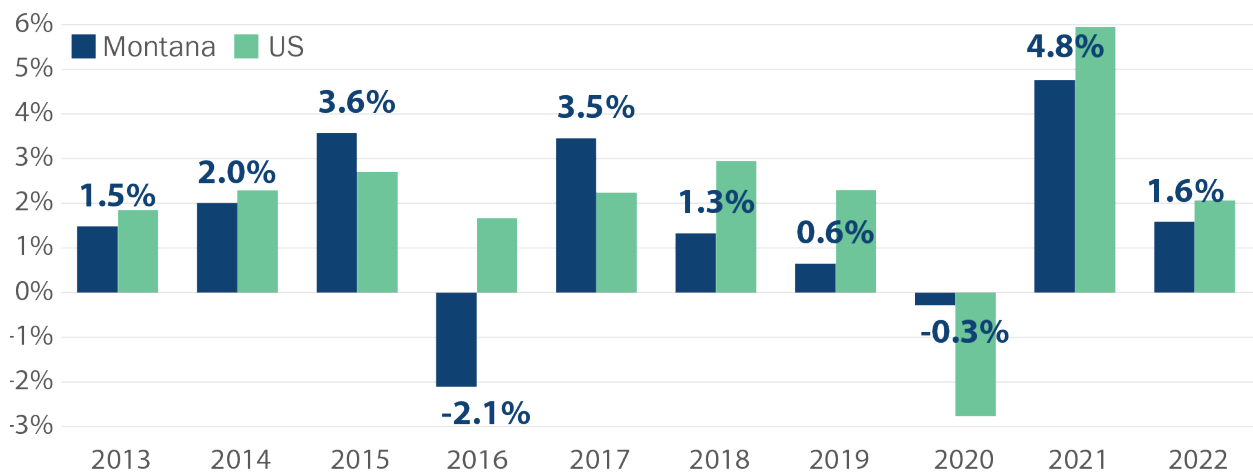




SECTION 2: STEADY ECONOMIC GROWTH

After a record-setting year in 2021, the Montana economy grew at a pace more consistent with long-run growth in 2022. Montana's total economic output, as measured by real gross domestic product, grew by 1.6%. The economy contracted slightly during the first two quarters of 2022. However, economic growth turned positive during the second half of 2022 as inflation pressures began to moderate. The first quarter of 2023 shows continued economic strength. The Montana economy grew by 6% in the first quarter of 2023, ranking 5th in the nation for fastest economic growth.⁹ **Figure 15** shows real GDP growth in Montana and the nation since 2013.

Figure 15. Real GDP Growth in Montana and the US

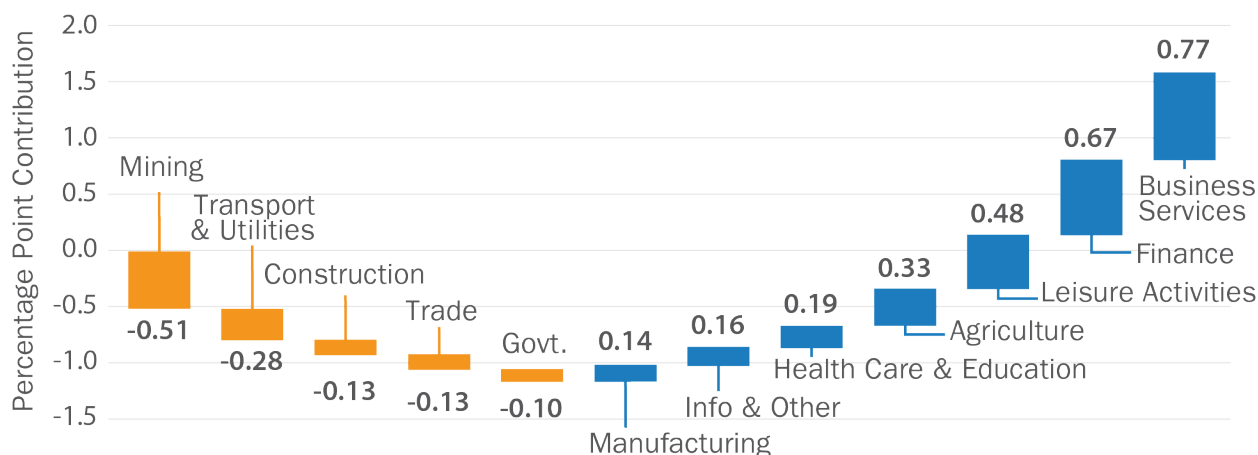


Source: US Bureau of Economic Analysis

Montanan’s economic growth was driven by growth in some of the state’s largest producing industries.

Figure 16 shows the contribution of each industry to real GDP growth in 2022. Business services was the largest contributor to GDP growth in 2022, generating 28% of the growth in total output. Another 25% of GDP growth came from financial activities. Including banks, real estate, insurance companies, and other similar businesses, activity in this industry often involves the sale of very high-value assets such as homes, commercial buildings, or insurance policies.

Figure 16. Contributions to Percent Change in Real GDP by Industry



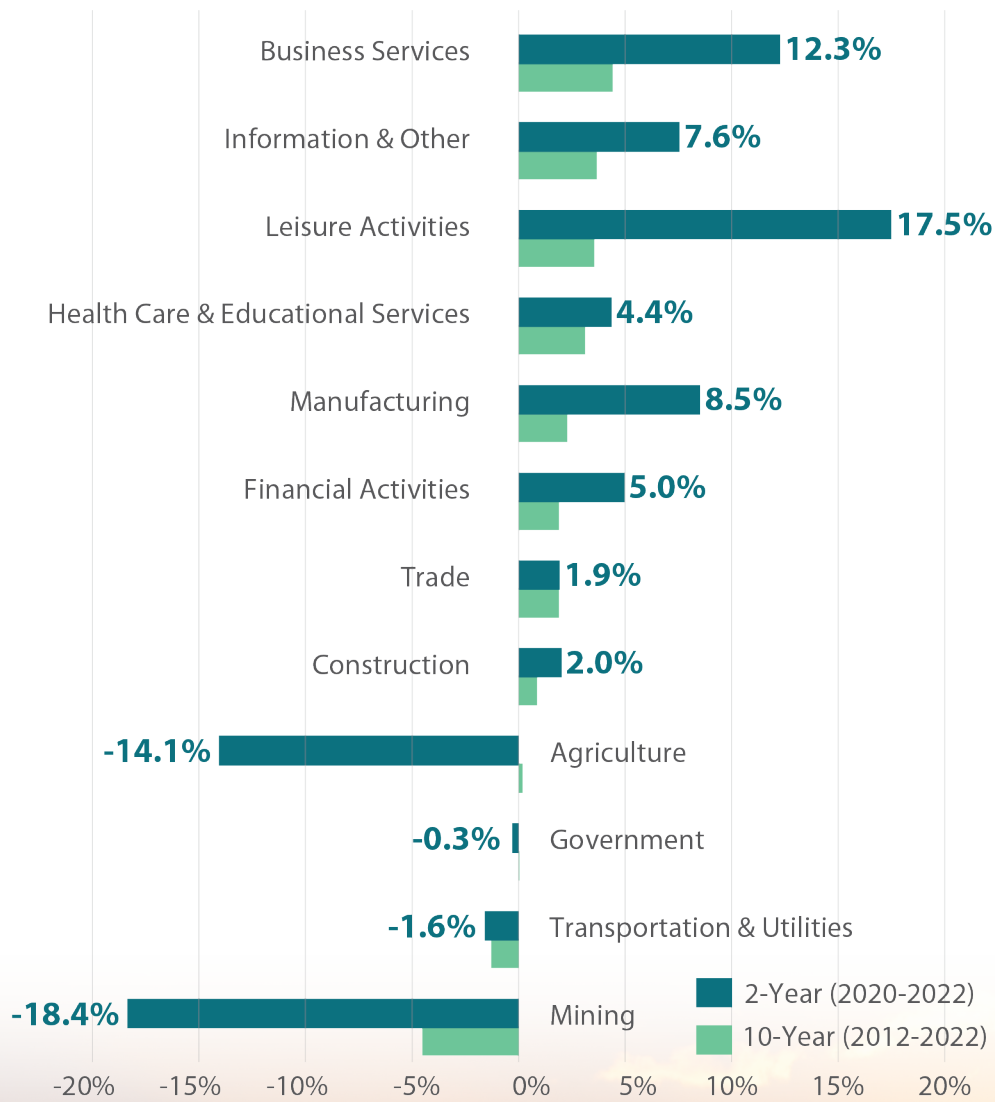
Source: US Bureau of Economic Analysis. Industry contribution to percent change in Montana GDP 2021-2022.

Leisure activities was the third largest contributor to GDP growth in 2022. Total production in leisure has grown faster than production in any other industry in Montana since 2020. After health-related concerns and social distancing limited Montanans ability to travel and eat out in 2020, demand for leisure activities came roaring back once pandemic-related restrictions were lifted. Real GDP averaged 17.5% growth per year since 2020 in leisure activities. **Figure 17** shows the real GDP growth in each industry over the last ten and two years.

The goods-producing industries of mining, utilities, construction, trade, and transportation were all unable to overcome inflationary pressures in 2022, resulting in losses in real GDP. The commodities market experienced significant disruptions that impacted economic production. Both mining and agriculture experienced double-digit losses in production annually from 2020 to 2022. However, the first quarter of 2023 has brought some relief. Over half of the GDP growth in 2023 Q1 was due to a significant increase in agricultural sales. Agriculture contributed 3.6 percentage points to the overall 6% increase in real GDP. Mining activity also increased by 5.7% during the first quarter of 2023.

Nearly every industry experiencing growth in real GDP over the last decade saw that growth accelerate exiting the pandemic recession. Long-run GDP growth in business services has been the fastest among all industries in Montana, growing by 4.4% since 2012. That growth accelerated to nearly three times the long run average following the pandemic recession. Business services includes professional services like architecture, law, engineering, and consulting companies. These businesses were able to adapt more smoothly to pandemic-era workforce changes, like the increased prevalence of remote work, than businesses relying on in-person service delivery. As a result, business services were able to maintain economic production more consistently through the pandemic than other industries.

Figure 17. Annual Average Real GDP Growth by Industry



Source: US Bureau of Economic Analysis

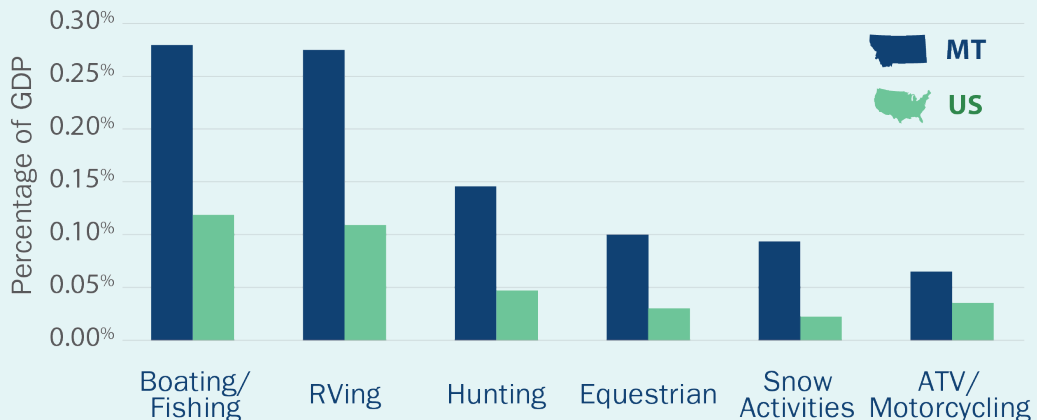
Outdoor Recreation Economy

The state's beautiful landscape offers ample outdoor recreation opportunities enjoyed year-round. Montana ranks 2nd in the nation for the largest share of GDP generated by outdoor recreation. In 2021, outdoor recreation generated \$2.5 billion, accounting for 4.4% of total GDP.

Enjoying the outdoors can involve contributions from multiple industries. For example, fly fishing involves fly rod manufacturers, retail sellers of those rods, and fishing guides. There are also often transportation and lodging needs to get someone casting. About half of the economic activity comes from the recreation activities themselves, while the other half comes from those services that support the outdoor recreation: food, lodging, transportation, and construction.

The largest activities are RVing and boating, generating \$160 million and \$110 million in GDP. These activities aren't necessarily the most popular, but they generate the largest amounts of economic production due in part to the high equipment prices. The outdoor recreational activities that contribute the most to GDP are similar in Montana and the US—Montana just does relatively more of each activity.

Figure 18. Activities' Percent of Total GDP, 2021



Source: US Bureau of Economic Analysis, Outdoor Recreation Satellite Account

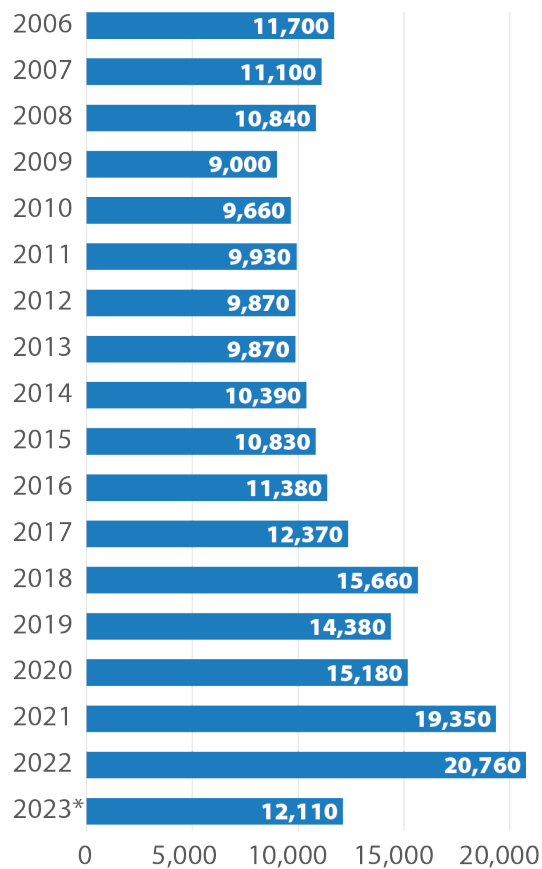
In general, the pandemic shifted more of the economic activity towards the recreational activities and less from the supporting services, at least in 2021 (last year the data is available). Some water sports saw the largest gains—canoeing and kayaking were up \$4.1 million in GDP, a 184% increase from 2019. RVing grew the most with an extra \$39 million in GDP, up 32%.

Business Formation at a Record High

Montana's economic growth in recent years can be attributed, at least in part, to the enterprising nature of Montanans. When compared to other states, Montana boasts the third highest rate of individuals engaged in proprietary employment, with nearly 28.5% of the workforce running their own businesses. This has contributed to the rise in personal incomes in Montana, with proprietary income accounting for approximately 9.1% of the state's total personal income in 2022.

Montana boasts the 3rd highest rate of business ownership among states.

Figure 19. Montana Business Applications



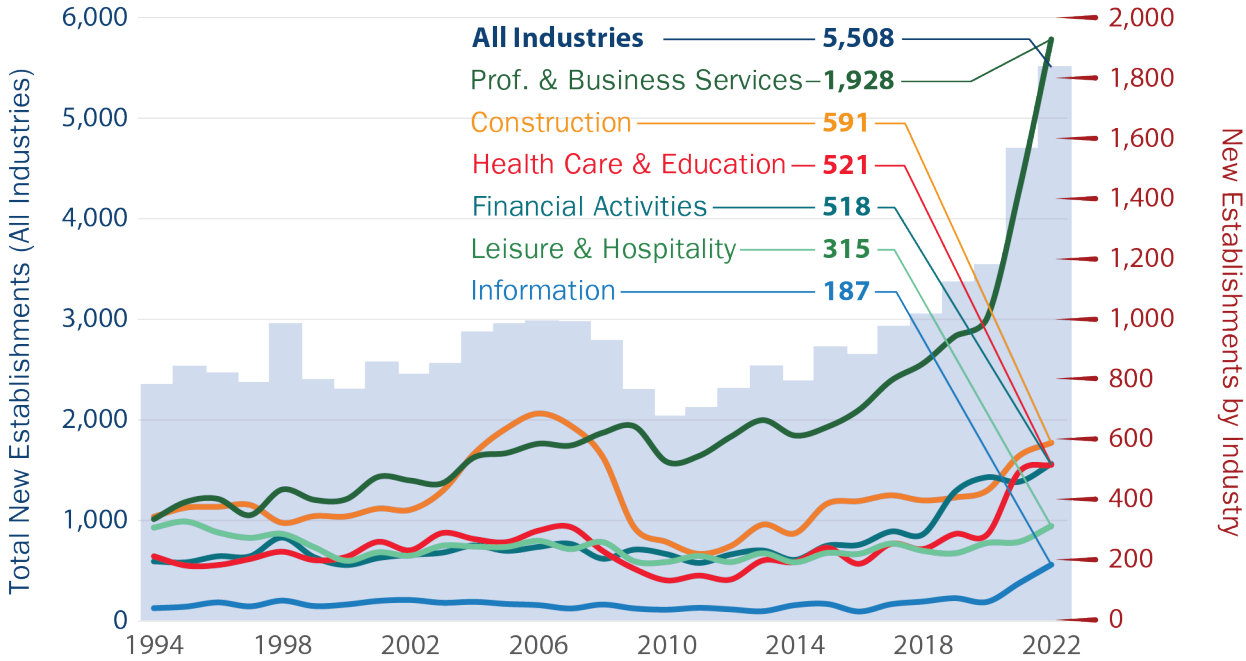
Source: Business Formation Statistics, US Census Bureau, MT 2006-June 2023. *Includes only Jan. to June of 2023.

Entrepreneurial activity witnessed a significant upswing in Montana in the years following the pandemic (Figure 19). Pro-growth tax policy and efforts to reduce bureaucratic red tape have helped monthly business applications surge from 15,180 in 2020 to over 19,000 in 2021 and exceeding 20,000 in 2022. As of June 2023, the trend continues, with approximately 12,110 applications received so far this year, indicating that Montana is on track for further growth.

Montana's vibrant entrepreneurial culture fosters the establishment of more businesses, leading to job creation and increased employment opportunities. Figure 20 illustrates the upward trajectory of new business establishments in recent years. In 2022, the number of new establishments grew by 2,100 compared to 2019 for a total of 20,760 new establishments. Nearly half of this surge originated from the professional and business services industry, resulting in 984 additional establishments compared to 2019 (Figure 20).

The previous year witnessed a total of 5,508 new establishments, with the professional and business services sector contributing 1,928 of them. The significant growth in the sector can be partially attributed to the influx of teleworkers entering Montana, leading to new establishments being formed for legal purposes. The construction and financial activities industries also experienced noteworthy increases in new establishments over the past year, reflecting the heightened demand for housing, real estate services, and lending services in the state.

Figure 20. New Establishments by Industry, Selected Industries, MT



Source: Bureau of Labor Statistics, Business Employment Dynamics, age and size tables

A Quarter of Montana Businesses have Remote Employees

Increased prevalence of remote work is perhaps the most significant pandemic-era workforce adaptation to persist in today’s labor market. Prior to the pandemic, about 21% of Montana businesses had teleworking employees. In 2022, approximately a quarter of businesses reported having some remote workers. Furthermore, about 12.7% of businesses were fully remote, meaning all their employees were teleworking all the time. **Montana ranks 15th in the nation for the percentage of fully remote businesses.**

Another 12.7% of Montana businesses operate with a hybrid model, meaning some of their employees telework some of the time. The hybrid model is less common in Montana than the rest of the nation. Across the U.S. about 32% of businesses operate with a hybrid model, allowing employees to telework some of the time. Montana ranks 40th in the nation for the percentage of businesses with a hybrid telework model.

A business’s ability to offer remote work for their employees depends on the requirements of the job. Restaurants and hotels cannot offer remote work because of the in-person nature of the services they provide. Hospitals and other healthcare providers run into similar problems when considering remote work opportunities. Montana’s below average prevalence of remote work can be explained, in part, by the industry composition of employment.

Personal Income Growth

Personal income, which measures the value Montanans receive from their economic activity, grew steadily in 2022. After rapid personal income growth in 2020 and 2021, growth moderated to 3.1% in 2022 – ranking Montana 19th in the nation for fastest personal income growth.

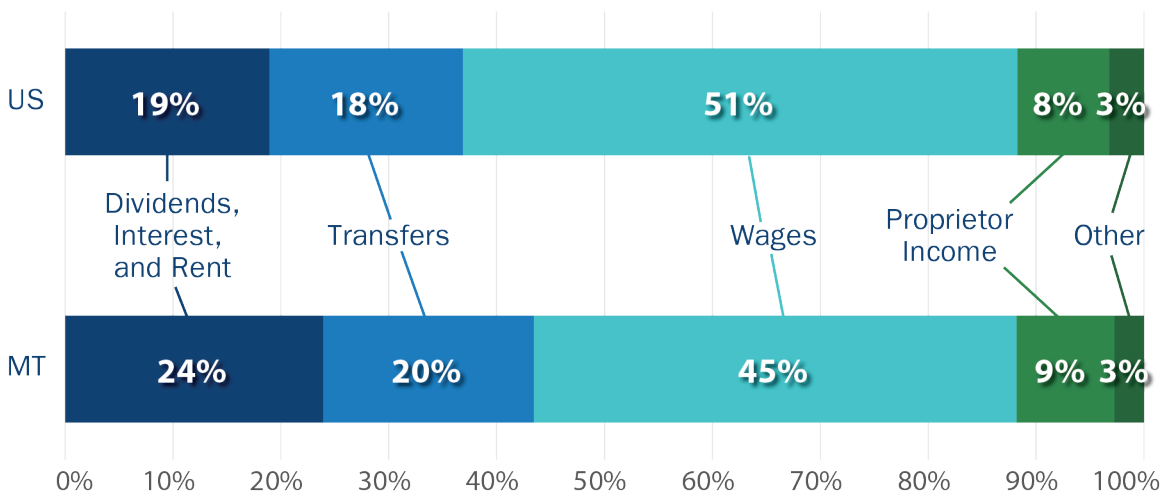
Montanans earn income from a variety of different sources, including wages, business income, and capital gains. The largest share of income comes from wages (45%), followed by investment income (24%), government payments (20%), and business income (9%). Montanans receive a larger portion of their income from non-wage sources than the national average (**Figure 21**). Investment income and government payments, which includes things like retirement income and social security, comprise about 44% of personal income in the state. The prevalence of these income sources in Montana reflect the state’s older than average population.¹⁰ Montanans also receive slightly more of their income from business activity and self-employment income relative to the national average.

Economics Explained:

Gross Domestic Product (GDP)

measures the total value of all goods and services produced in Montana, while **Personal Income** measures the value Montanans receive from economic activity, regardless of whether that activity occurs within Montana or outside the state. Both GDP and personal income are used as overall measures of economic activity.

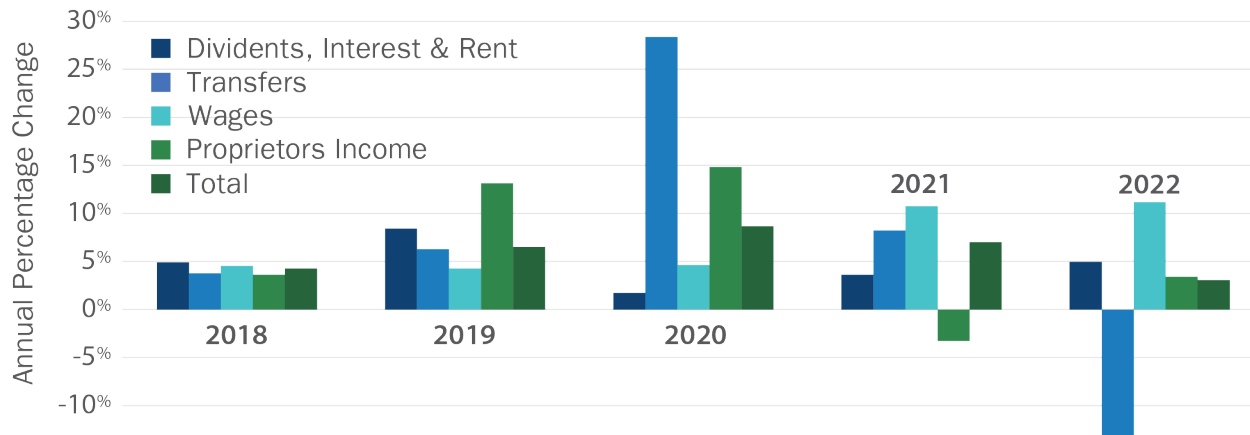
Figure 21. Composition of Personal Income, 2022



Source: Bureau of Economic Analysis

Wage growth was the primary driver of income growth in 2022, growing by 11.2%. These wage gains were offset by a decline in transfer payments to Montanans. Transfer payments include unemployment insurance benefits and stimulus payments, which spiked in 2020 and 2021 due to the CARES Act and ARPA. The decline in transfer payments in 2022 reflects the subsequent loss of that income. **Figure 22** shows the annual growth in personal income by component over the last five years in Montana. Personal income growth picked up during the first quarter of 2023, growing by 8.3% - ranking Montana 8th in the nation for fastest income growth.¹¹

Figure 22. Personal Income Growth by Major Component in Montana



Source: US Bureau of Economic Analysis

On a per capita basis, average income rose to \$57,719 in 2022 – ranking 29th highest among states. While Montana’s per capita income still falls below the national average, it has been growing more rapidly in recent years. Since 2019, per capita income has grown by 4.7% per year, compared to 3.8% prior to the pandemic. **Figure 23** shows the growth in per capita income since 2010. Accelerated income growth has helped Montana households weather economic uncertainties exiting the pandemic recession.

Figure 23. Per Capita Person Income Growth in Montana



Source: US Bureau of Economic Analysis



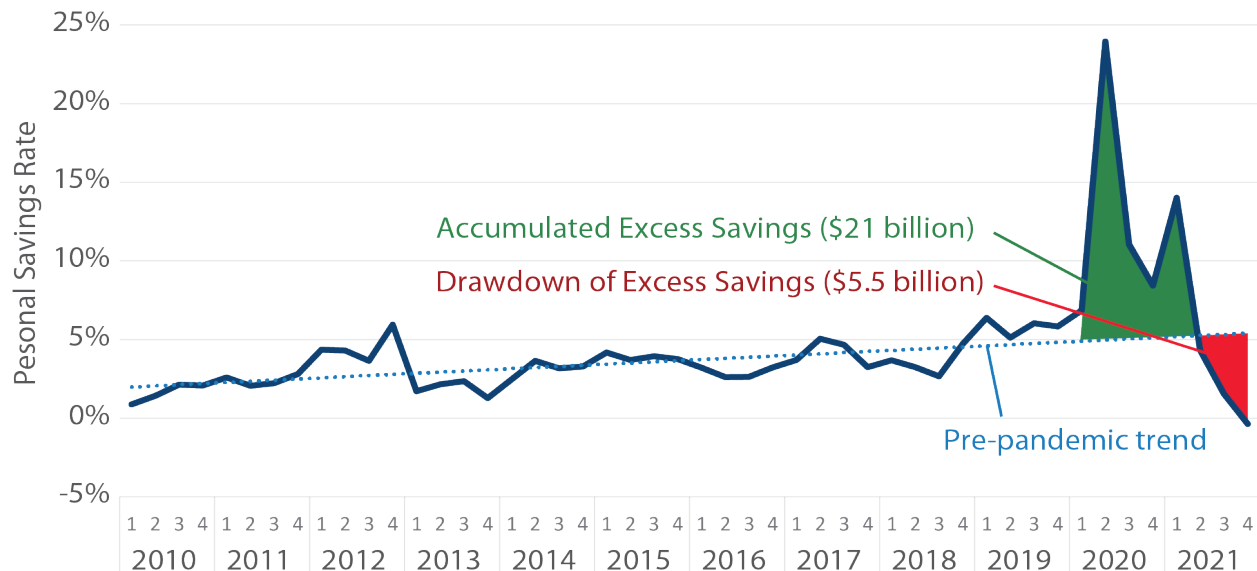
Montana Households Drive Economic Growth

The strong recovery and continued economic expansion following the pandemic recession can be attributed in large part to the financial strength of Montana households. Consumer spending has been one of the primary drivers of economic growth over the last few years. Buoyed by strong household balance sheets, Montana consumer spending accelerated in 2021, outpacing inflation.¹² Montana households have continued to spend in 2022, drawing on large reserves of excess savings accumulated during the pandemic to do so.¹³

Increased income and reduced spending resulted in an unprecedented increase in aggregate personal savings. Excess savings continued to accumulate through the first quarter of 2021, until the state economy began to reopen and pent-up demand for goods and services propelled Montana household spending to new heights. **Figure 24** shows the change in personal savings as a percent of disposable personal income, also called the personal savings rate.¹⁴

Montana households accumulated approximately \$21 billion in excess savings during the pandemic, 73% of which was still available at the end of 2021 to support household spending.

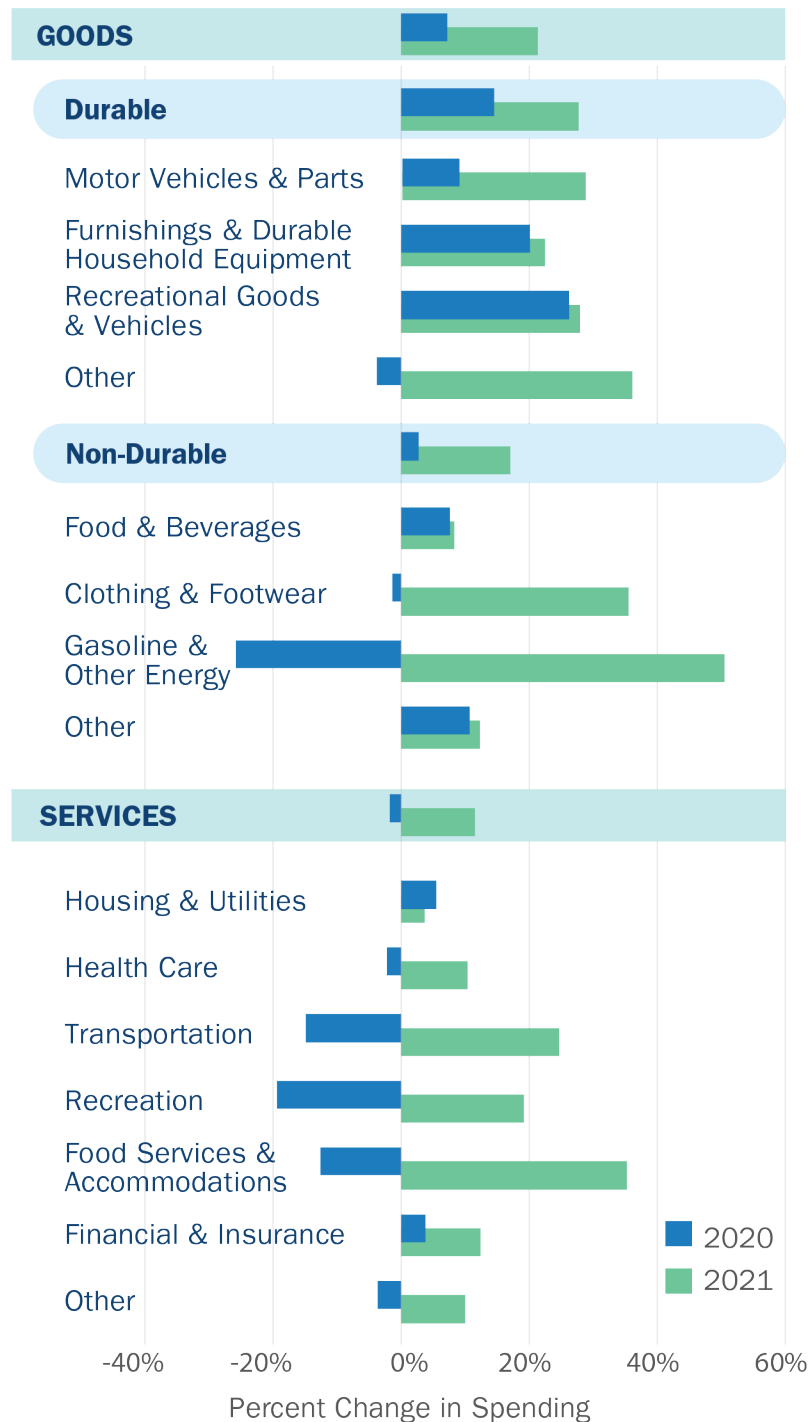
Figure 24. Montana Personal Savings Rate



Source: MTDI calculation based on data from Bureau of Economic Analysis, S&P Market Intelligence. Personal savings calculated as the difference between personal disposable income and personal consumption expenditures in Montana.

In the decade prior to the pandemic, Montanans saved an average of 3.4% of their disposable personal income per year. Beginning in the second quarter of 2020, the savings rate jumped to 24% and remained elevated for the next year. During the first four quarters of the pandemic, Montana households were able to accumulate over \$21 billion in excess savings through increases in disposable income and reduced spending on services as a consequence of pandemic-era restrictions.

Figure 25. Changes in Spending on Goods and Services in Montana



Source: U.S. Bureau of Economic Analysis, Personal Consumption Expenditures (PCE) for Montana.

Spending patterns changed significantly during the pandemic, as Montanans shifted their spending from services to goods. Total spending on services fell by 2% in 2020, with the largest declines occurring in recreation, food service and accommodation, and transportation (Figure 25). Housing and utilities spending was one of the few services that continued to grow. Total expenditures on goods rose by 7% in 2020. Spending on nearly every type of good increased in 2020, except for gasoline. The prevalence of remote work and travel restriction meant many Montanans spent less time on the road. As a result, gasoline spending fell by 26% in 2020.

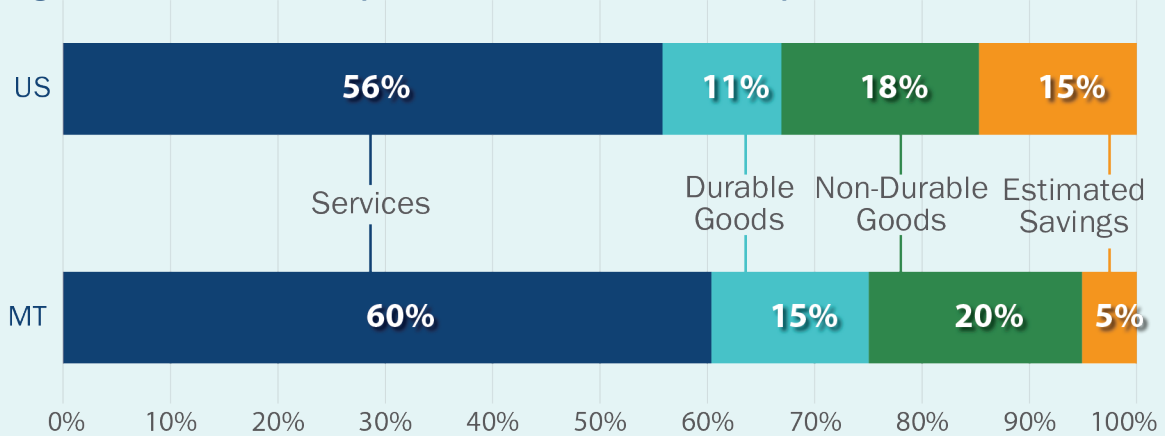
Spending picked up in the second quarter of 2021 as the state economy reopened and entered a period of rapid recovery and expansion. Montanans were eager to return to their pre-pandemic lives, engaging more in recreation activities and traveling. Spending on recreation, food service and accommodation, and transportation services all increased to at or above pre-pandemic levels. Gasoline expenditures experienced the largest increase in 2021, growing by 51%.

As spending accelerated, Montana households began to save less, drawing from their excess savings to cover increases in spending (Figure 24). Through the end of 2021 Montana’s personal savings rate fell below the pre-pandemic trend, and excess savings fell by about \$5.5 billion. Estimates suggest that remaining excess savings accumulated during the pandemic (\$15.5 billion) could be available to support Montana household spending through the third quarter of 2022.¹⁵

Montanans spend a larger portion of their income than the national average.

Montanans spend slightly less than the nation on a per capita basis. However, lower disposable income in Montana compared to the U.S. means a larger portion of Montanans’ income is spent on goods and services. In 2021, more than half (60%) of Montana disposable income was spent on services, such as housing and utilities (15%) and healthcare (16%). Another 35% of Montana disposable personal income is spent on goods, such as groceries (8%) and gasoline (3%).

Figure 26. Household Expenditures as a Percent of Disposable Income



Source: MTDLI calculation based on BEA data.



Inflation Moderating

The primary headwind to economic success for Montana families in 2022 was inflation. Across Montana, prices for goods of all kinds surged upwards, putting a dent in wage gains and increasing costs for families for everything from gasoline to food to housing to airline tickets. Inflation reached a forty-year high of 9.1% in June of 2022 (**Figure 27**). Since then, though still imposing costs of Montana families, inflation has begun to at least moderate. By the midway point of 2023, inflation fell to 3% over-the-year..

Energy prices were one of the initial drivers of inflation, rising over 50% from 2020 to 2022. Rising energy prices led to increases in transportation costs, which rose by 33% over the same period. Transportation costs were also impacted by the shortage of chips for new vehicles. Used car prices skyrocketed due to a shortage of new vehicles, rising by 43% from 2020 to 2022.

Rising energy and transportation costs affect the price of other goods and services as it becomes more expensive to deliver goods to stores. The price of food and beverages accelerated in 2022, increasing 10% in 2022. Food prices have started to slow in 2023 but are still up 6% in June from one year prior. **Figure 28** shows how various prices have grown over the last year across the nation.

Economics Explained:

Inflation refers to an increase in the general price level of goods and services in the economy. Rising prices erode the purchasing power of money, meaning each unit of currency buys fewer goods and services.

Inflation is most commonly measured through the **Consumer Price Index (CPI)**, which measures the average change over time in the prices paid by urban consumers for a market basket of consumer goods and services.

Figure 27. Twelve-Month Percent Change in CPI



Source: BLS, CPI

Housing prices are now one of the primary drivers of inflation. In June the shelter index increased 7.8% nationally, and it was responsible for over two-thirds of the total increase in core inflation. Strong demand caused by robust in-migration and low interest rates propelled shelter costs in Montana and the surrounding Mountain region to annual increases of 10% in 2022. Shelter costs in the Mountain region have since moderated to 7.9% in June 2023, reflecting a slowdown in home price growth. The price of shelter is lagged relative to home values due to long-term rental contracts and fixed-rate mortgages.

Across the nation hourly earnings have grown by 4.4% over the year ending in June 2023. With inflation at 3%, this suggests an increase in the purchasing power for U.S. consumers. Hourly earnings in Montana are up 10.4% over the year ending in June 2023, which is more than twice the national average.¹⁶ Significant increases in hourly earnings may translate to real wage growth for Montanans in 2023.

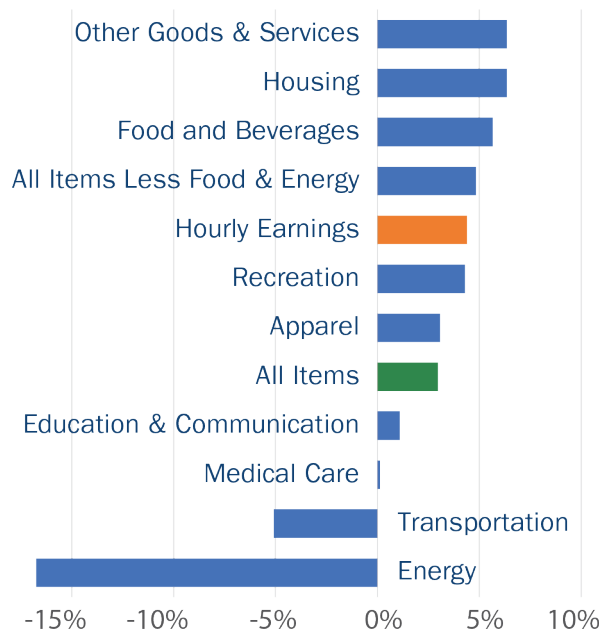
Montana Housing Market

The global pandemic set off a significant increase in home prices in Montana and throughout the United States. As people spent more time at home, and the prevalence of remote work meant many people were no longer place-bound by their job, housing demand soared. People began moving to Montana at higher rates in search of better access to the outdoors, smaller communities, and a slower pace of life. The result was a significant increase in the demand for housing.

Home builders, on the other hand, were faced with a shortage of workers and supply chain constraints that made it difficult to keep up with rising demand. Constricted supply and a surge in housing demand led to significant home price appreciation in Montana. Montana's home values increased 50% from the first half of 2020 (2020H1) to 2022H1, which is a significant acceleration from the 13.7% growth experienced in the two years prior.¹⁷

Housing demand began to wane in the second half of 2022 as in-migration slowed and the cost of borrowing rose. Montana builders also increased production in 2022. Housing permits increased by 72% compared with 2019 levels.¹⁸ These changing market conditions led to a slowdown in home value growth (Figure 29). By the first quarter of 2023, Montana home values increased 4.7% annually compared with 4.3% nationwide.¹⁹ Some neighboring western states, such as Idaho, Colorado, Utah, Washington, Oregon, and California, even experienced a decline in home values in the first quarter of 2023.

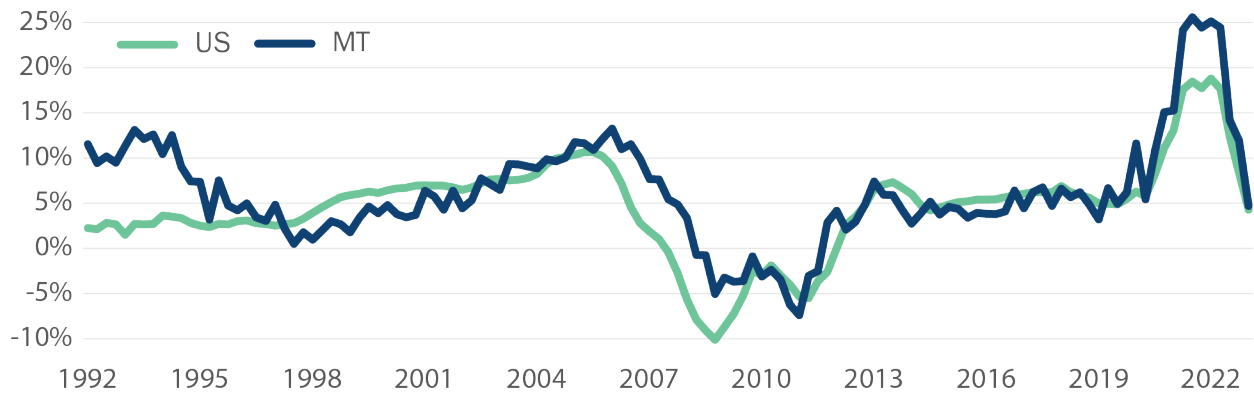
Figure 28. Percent Change in U.S. Prices
(June 2023 compared to June 2022)



Source: BLS, CPI, and CES.

Montana ranks 8th among states for fastest home price appreciation since 2020. The typical home value in Montana averaged \$440,000 in the first quarter of 2023, up 51% from three years earlier.

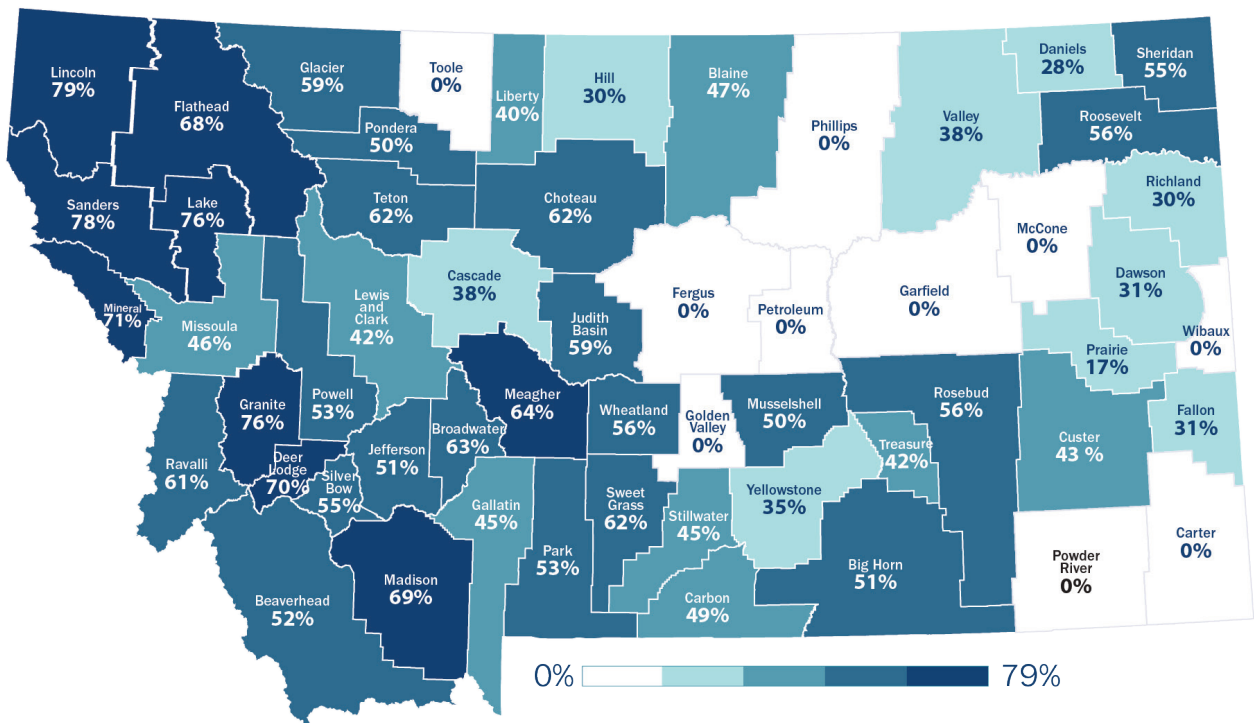
Figure 29. Annual Percent Change in House Prices



Source: FHFA. HPI. Purchase-Only Index

Despite the slowdown, Montana home values are 51% higher than pre-pandemic levels (2023Q1 compared with 2020Q1). This is higher than the U.S. average of 40% and ranks 8th highest of all 50 states. The typical home value in Montana averaged \$440,000 in the first quarter of 2023, compared to \$280,000 three years prior. Home prices are increasing in every Montana county, with western and urban areas of the state posting the strongest growth since the start of the pandemic. **Figure 30** shows typical home value growth from the first quarter of 2020 through the first quarter of 2023 by county.

Figure 30. Percent Change in Typical Home Values (2020Q1 to 2023Q1)

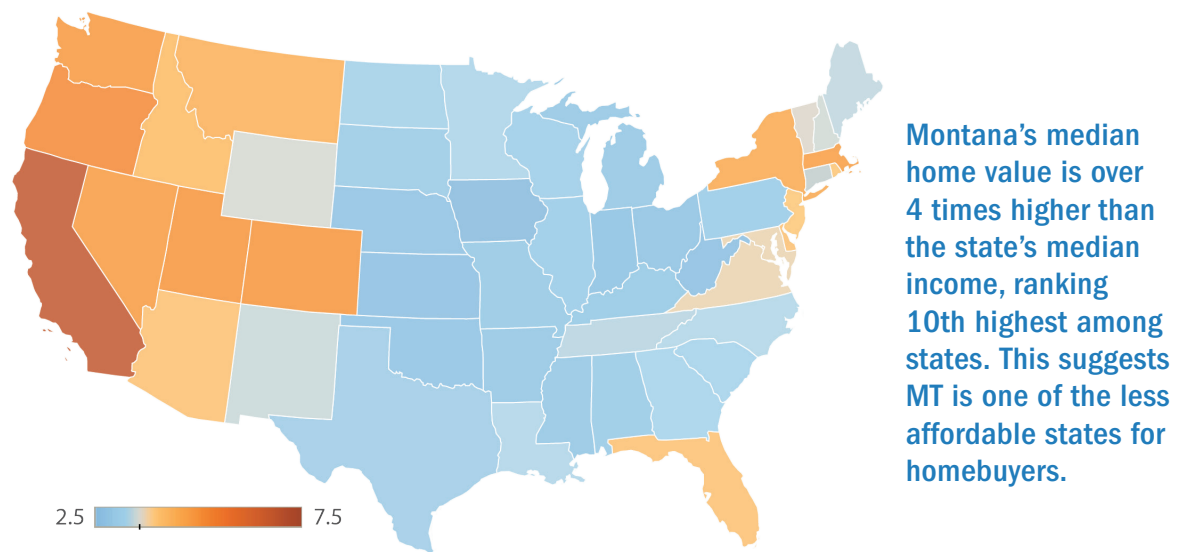


Source: Zillow Research Data. ZVHI for All Homes. Data unavailable for some counties.

The rising cost of homes in Montana helps generate equity for existing homeowners; however, it also creates a barrier for many first-time homebuyers who may not have seen their income grow as rapidly as home values. Rising home values and increases in the cost of borrowing have reduced the affordability of new mortgages and rent. In 2021, an average Montana renter spent nearly 26% of their household income on rent. 42% of renters are cost-burdened, meaning they spend more than 30% of their household income on rent alone.

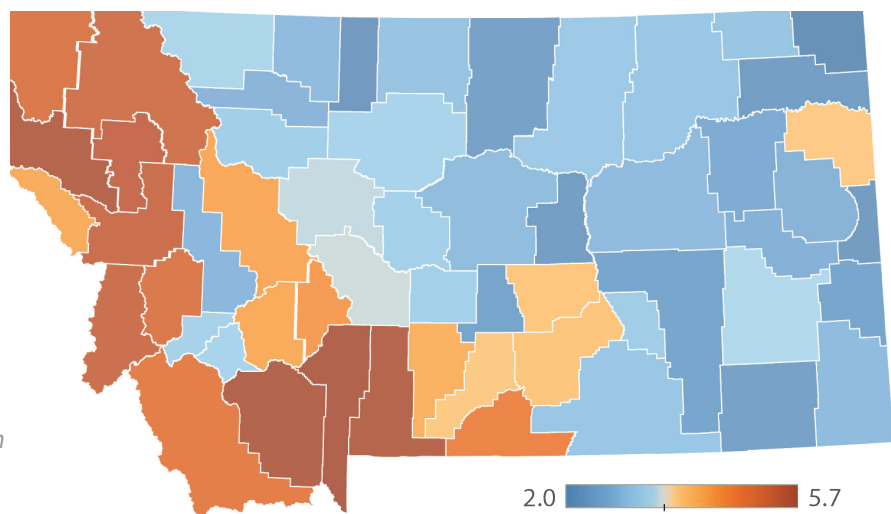
In Montana, home values are higher than the U.S. average, while incomes are lower than the national average (**Figure 30**). This difference suggests homeownership is less affordable in Montana than other parts of the nation. Montana has the 10th highest median home value relative to household incomes. While homes are less affordable in Montana compared to the national average, there are areas of the state where housing is more affordable. The western urban portion of the state tends to have less affordable housing than the U.S. average. The most expensive areas of the state relative to income levels are in Bozeman and the surrounding area, Missoula and the surrounding area, and the Flathead Valley.

Figure 31. Ratio of Median Home Values to Median Household Income



Median Home Price to Median Household Income ratio varies by county, with housing being less affordable in Western Montana.

Source: ACS 2017-2021 5-Year Estimates. Ratio of median home value to median household income.



Conclusion

Extraordinary job growth and accelerated wage growth have strengthen Montana households and supported continued economic expansion throughout the state. High consumer demand and entrepreneurialism have made Montana businesses more profitable, bringing more income back to owners. Through productivity improvements, investments in worker training, and tapping into underutilized labor sources, Montana's economy will continue to flourish.



Endnotes

- 1 *Employment change measured from May 2020 to May 2023 and compared to employment growth from December 2009 through December 2019. Local Area Employment Statistics, US BLS.*
- 2 *Current Population Survey, 2022 annual average. Calculated as the percent of unemployed persons who are either new entrants or re-entrants to the labor force*
- 3 *IPUMS Current Population Survey, twelve-month moving average ending May 2023.*
- 4 *Estimated using IPUMS CPS, June 2023 12-month average.*
- 5 *Census Bureau State Population Totals and Components of Change: 2020-2022. <https://www.census.gov/data/tables/time-series/demo/popest/2020s-state-total.html>*
- 6 *Census Bureau Annual Resident Population Estimates, Estimated Components of Resident Population Change 2011-2019.*
- 7 *Hello, I'm New Here: Migration and the Labor Force. Watson, Amy. MTDLI 2023. https://lmi.mt.gov/_docs/Publications/EAG-Articles/EAG-0723_Final.pdf*
- 8 *Ibid.*
- 9 *Montana's quarterly GDP tends to be volatile because of timing with sales in the agricultural sector.*
- 10 *US Census Bureau, 2020.*
- 11 *Personal income from transfer payments rose by 17% from 2022 Q4 to 2023 Q1, likely from the sale of agricultural products. Growth in 2023 Q1 was due to both transfer income and wage income growth.*
- 12 *Growth in Montana Personal Consumption Expenditures (PCE) was 14.9% in 2021, which is greater than the 12-month CPI change from Dec 2020 to Dec 2021 (7%).*
- 13 *S&P Market Intelligence June 2023 Forecast.*
- 14 *Montana personal savings is calculated as the difference between disposable personal income and personal consumption expenditures. Does not include personal current transfer payments and personal interest payments.*
- 15 *S&P Market Intelligence June 2023 Forecast of Montana personal consumption expenditures and disposable personal income*
- 16 *Average hourly earnings are on a "gross" basis. They reflect not only changes in basic hourly and incentive wage rates, but also premium pay for overtime and late-shift work and changes in output of workers paid on an incentive plan. They also reflect shifts in the number of employees between relatively high-paid and low-paid work and changes in workers' earnings in individual establishments. BLS Handbook of Methods, Chapter 2.*
- 17 *FHFA. HPI. Purchase-Only Index. Not seasonally adjusted.*
- 18 *U.S. Census. Building Permits Survey. Retrieved from FRED, Federal Reserve Bank of St. Louis. July 2023.*
- 19 *FHFA. HPI. Purchase-Only Index*



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