2021 MONTANA

LABOR DAY REPORT

Montana Department of
LABOR & INDUSTRY

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STATE OF MONTANA
Greg Gianforte, Governor

MONTANA DEPARTMENT OF LABOR & INDUSTRY
Laurie Esau, Commissioner

PRIMARY AUTHOR
Barbara Wagner, Chief Economist

CONTRIBUTORS
Amy Watson, Senior Economist
Christopher Bradley, Senior Economist
Emily Trautman, Senior Economist
Nicholas Holom, Economist
Robert C. Marvin, Layout

CREATED BY
Research & Analysis Bureau
P. O. Box 1728
Helena, MT 59624-1728
(406) 444-4100
www.lmi.mt.gov

EXECUTIVE SUMMARY

On Labor Day 2021, Montana's economy is in the midst of a strong recovery from the pandemic recession, reflecting the enthusiasm of Montanans eager to see the end of the global pandemic. As vaccinations became available and business restrictions were lifted, Montanans returned to normal business activity, celebrating the ability to safely attend restaurants, concerts, and social activities. The release of this pent-up demand, relaxed COVID-19 protocols, economic stimulus, and higher income all contributed to surging consumer demand this spring, leaving businesses scrambling to bring on enough workers to meet customer needs. Tight labor markets once again became the largest challenge to the state's economic growth. Highlights include:

- The rate of new businesses skyrocketed to the fastest rate in ten years, with over 3,500 new businesses created in 2020.
    - Montana's startups are more successful than the national average, and the pandemic had little impact on the rate of business closure for firms created within the last ten years.
- Montana has the 4th highest rate of business ownership in the nation, with 6.3% of Montana households reporting income from a business or farm.
- Montana posted the 3rd best payroll employment recovery among states since the start of the pandemic recession, and the 8th best recovery in total employment.
    - The pandemic recession averaged job gains over 2,700 per month since the trough, a much faster recovery than the average of 500 jobs gained per month during the recovery from the 2008 recession.
    - Both payroll and total employment levels are within 1% of the pre-recession peak.
- Montana's real GDP growth from 2019 to 2020 ranked 20th among states, and likely made a full recovery in the 2nd quarter of 2021.
- Montana ranked 1st among states for personal income growth in 2020, growing 8.4% to $57.6 billion.
    - Business owner income increased by 10%, or $506 million, bolstered by the Paycheck Protection Program and the Coronavirus Food Assistance Program.
    - Wages paid to Montana workers surged, posting a 7.2% increase ($1.7 billion) for the year ending 2021Q1. Increased wage earnings are an important component needed to drive future business demand and are vital to increasing the standard of living for most Montanans.
- Montana ranks 8th among states for the fastest average annual wage growth over the last 10 years.
    - Average annual wages in payroll jobs increased by 7.9% in 2020 (up to $48,400), over double the wage growth rates posted in prior years.
    - Real wage growth, or the amount of wage growth that exceeds inflation, was 6.6% in 2020
- The unemployment rate dropped quickly after the pandemic recession, reaching 3.6% in July 2021. Prior recessions took much longer for unemployment to return to normal levels.

- Labor productivity soared as workers moved into remote work, increasing by 3.9% for the year ending 2021Q1.

Despite the strong economic recovery, challenges remain, particularly labor shortages and the impacts of rising prices on businesses and workers:

- Inflation has spiked, with prices increasing over 5% during the summer of 2021, leaving consumers paying more for housing and gasoline, among other goods.
    - Over the two years ending June 2021, hourly wages have increased by 8.7% while the price level has increased by 6.1%, resulting in a 2.6% increase in the real hourly wage.
- Housing prices have also risen, with Montanan's typical home price up 10.3% to $327,000 for the year ending June 2021, leaving many communities concerned about affordable housing.
- Thousands of workers left the labor force during the last year due to fears of contracting COVID-19 and a lack of childcare. These workers must be reengaged in our economy to help fill unmet worker demand.
    - Many of these workers have already come back into the economy as of July, with the labor force only 0.5% lower than its pre-recession peak.
    - If Montana's labor force participation rate was the same now as before the pandemic, 11,331 more workers would be available to fill openings.
- The average work week in Montana fell during the pandemic, moving from 33.4 hours per week in 2019 to 32.8 hours per week in 2020. Moving more part-time employees to full-time could address many workforce shortages.
- Over 20% of the workforce is 60 years or older and preparing for retirement.
    - Among those not retired, family care is the main reason for not participating in the labor force.

There are several solutions to the worker shortage, including increasing worker productivity through training and automation, tapping into underutilized labor sources (such as those living in rural areas or reservations, disabled, or facing barriers to work), and ensuring that workers have the incentive to move out of unemployment to work. With the resiliency and determination Montanans have shown throughout the last year, there can be no doubt that these future challenges will also be resolved, moving Montana's economy into a more profitable future.

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A MESSAGE FROM **COMMISSIONER ESAU**

Dear Governor Gianforte,

It's my privilege to submit to you the Department of Labor & Industry's 2021 Labor Day report, which shows that Montana's economy is making a strong comeback from the COVID-19 pandemic and is poised to continue to enjoy strong growth in the future.

On Labor Day 2020, Montana's economy had backed away from the brink as the most stringent COVID-19 restrictions began to relax. As this report shows, our economic comeback has only strengthened this year.

With the pandemic-era lockdowns lifted and families returning to normal day-to-day life, Montana is enjoying one of the strongest economic recoveries in the nation, ranking #3 in payroll jobs recovered since the start of the pandemic.

Montana's total employment is more than 99.5% recovered from the pandemic, and since January the number of Montanans receiving unemployment benefits has plummeted by 87%.

We also continue to enjoy strong wage growth, growing at 7.9% in 2020, and the fastest personal income gains of any state in the nation. Our unemployment rate has dropped to 3.6%, and in recent months, we've seen more and more Montanans return to the labor force.

The Department of Labor & Industry continues its work to empower Montanans through work and opportunity. Thank you for your continued leadership and your commitment to prosperity for all Montanans.

Sincerely,

Laurie Esau
Commissioner
Montana Department of Labor & Industry.

LABOR DAY REPORT
INTRODUCTION

On Labor Day 2021, the Montana economy reflects the exuberance of consumers enjoying a reprieve from the COVID-19 pandemic, but uncertainty remains. After the COVID-19 pandemic battered Montana in 2020, bringing heavy job losses and record high unemployment, the state's economy demonstrated resiliency with a strong recovery. Montana posted the 9th best employment recovery among states since the start of the pandemic recession in February 2020.[1] As vaccinations became available and business restrictions were lifted, Montanans returned to normal business activity, celebrating the ability to safely attend restaurants, concerts, and social activities. The release of this pent-up demand, relaxed COVID-19 protocols, economic stimulus, and higher wage and proprietor income all contributed to surging consumer demand this spring, with businesses scrambling to bring on enough workers to meet customer needs.

Despite Montanans' enthusiasm for the return of safe social activities, COVID-19 remains a threat to our continued economic recovery. Global supply chain disruptions have increased prices and caused some Montana businesses to forego profitable ventures due to a lack of inputs. Continued concerns about low vaccination rates and more infectious variants are threatening recent gains in consumer spending and increasing uncertainty about worker availability in the upcoming months. Higher wages, the expiration of expanded unemployment insurance benefits, and hiring incentives like Montana's Return to Work Bonus program will motivate some workers to return to the labor market, but others are unable to fully reengage due to inconsistent school schedules, limited childcare availability, and continued concerns about the virus. Bringing more people into the labor market and ensuring that these workers have the skills needed in our economy are critical to our continued recovery from the pandemic recession.

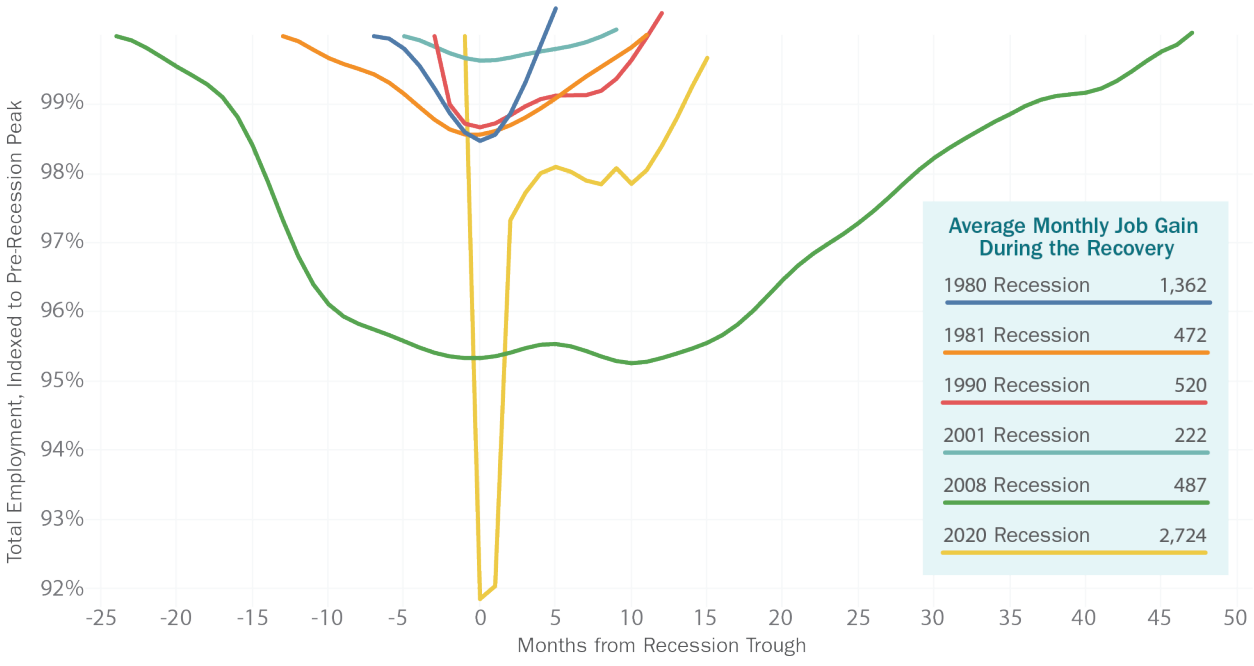
1 *Level change in total employment, Local Area Unemployment Statistics (LAUS), Montana Department of Labor & Industry (MTDLI) and the Bureau of Labor Statistics (BLS)*

SECTION 1:

MONTANA'S STRONG RECOVERY FROM THE PANDEMIC RECESSION

The pandemic recession was deep, sudden, and quick. **Figure 1** illustrates the number of months it took for employment to reach the recession trough and full recovery in the last six recessions, also illustrating the percentage drop in employment. Unlike the slow and gradual employment decline of the prior recessions, the pandemic recession was characterized by a rapid drop in consumer spending and sudden pandemic-related business closings, resulting in an immediate 8.1% drop in employment. Many of the lost jobs quickly came back within the first five months of recovery, with total employment coming within 2% of the pre-recession peak by September. In comparison, the 2008 recession remained at low employment levels for nearly a year after trough before finally adding jobs. After September, the recovery stalled as economic stimulus slowed and COVID-19 case counts increased, causing a reduction in spending as consumers avoided infection by staying home instead of spending at local businesses. In addition, parents struggled to balance work with monitoring students learning at home, reducing work hours or leaving the workforce entirely. Since vaccinations became widely available this spring and businesses fully reopened, employment has surged again. In comparison to prior recessions where monthly job gains during the recovery were fairly slow (roughly 500 per month in the 2008 recession), **the pandemic recession has averaged job gains of over 2,700 per month since the trough in April**.

FIGURE 1:
MONTANA RECESSIONS - Months to Trough & Months to Employment Recovery



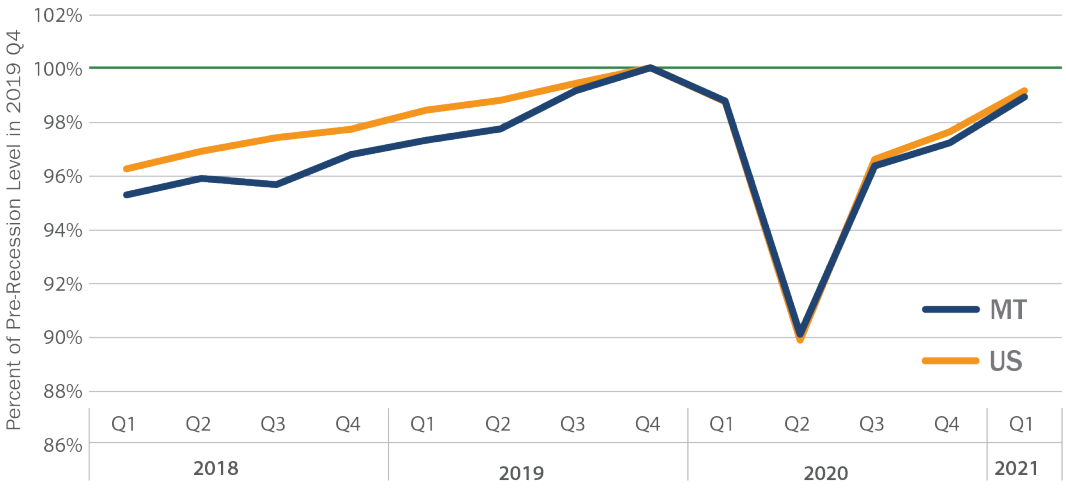
Source: Montana Department of Labor & Industry (MTDLI) using LAUS data. See lmi.mt.gov/home/job-tracking.

Real GDP Growing

Real gross domestic product (GDP) levels also indicate a quick recovery from the losses caused by the COVID-19 pandemic. GDP measures the value of goods and services produced by the Montana economy. Heading into the pandemic recession, Montana's GDP had been growing steadily at a compounding annual rate of 2% from 2009 to 2019.[2] Then, GDP fell by a total of $4.8 billion (10%) in the first and second quarter of 2020 as the COVID-19 pandemic impacted Montana's economy. The largest real GDP losses occurred in the healthcare and leisure activities industries, but all industries except agriculture experienced losses. Production surged back in the third quarter, regaining much of the pandemic-related losses, with continued growth in the 4th quarter. The recovery was led by the essential industries of agriculture and construction (see industry section for more details). Overall for the year, Montana's real GDP fell by 3% to $46.4 billion.

Steady recovery continued in 2021. Real GDP finished the 1st quarter of 2021 within 1% of the pre-recession peak. **Figure 2** illustrates the timing of the real GDP growth for both U.S. and Montana with the levels indexed so that the pre-recession peak is represented by the 100% line. The U.S. and Montana were very similar in the magnitude and timing of GDP changes during the pandemic. Montana is expected to track with the U.S. into positive territory in the 2nd quarter of 2021 (state data not yet available). **Montana's real GDP growth from 2019 to 2020 ranked 20th among states** (with 1 being the strongest growth).

FIGURE 2:
REAL GDP NEARLY RECOVERED FROM PANDEMIC RECESSION



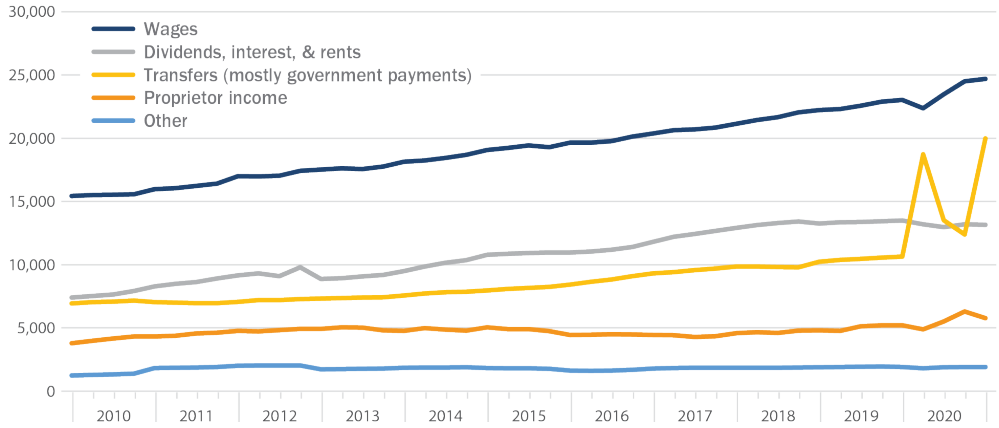
Source: Bureau of Economic Analysis (BEA).

2 All real GDP data from Bureau of Economic Analysis (BEA).

Personal Income Expands

Montana ranked 1st among states for personal income growth in 2020, growing 8.4% up to $57.6 billion, due to wage growth and economic stimulus payments.[3] Personal income measures the amount of income received from economic activity by Montanans, plus government transfers to business owners or households like social security, unemployment benefits, or stimulus payments. **Figure 3** illustrates the breakdown of Montana personal income sources from 2010 to 2020. The increased unemployment benefits and stimulus checks are evident in the spikes in transfers during the second quarter of 2020 and the first quarter of 2021.

FIGURE 3: MONTANA PERSONAL INCOME SOURCES



Source: BEA, Personal Income Components

Proprietor (business) income also increased in 2020 due to the Paycheck Protection Program and the Coronavirus Food Assistance Program. Overall, **business owner income increased by 10%, or $506 million**. However, without the $724 million received by Montana business owners from these two economic stimulus programs, proprietor income would have been about $218 million less than in 2019.

Wages paid to Montana workers also surged in 2020, despite the pandemic-related job losses, suggesting the wage gains for workers who retained jobs outweighed the wages lost from jobs that disappeared.[4] Wages dipped by about 3% in the second quarter of 2020, but quickly recovered. In the 1st quarter of 2021, wages were $1.7 billion higher than a year earlier, a 7.2% increase. Increased wage earnings are an important component needed to drive future business demand, and are vital to increasing the standard of living for most Montanans. One reason for the higher wage income is increased worker productivity from remote work.[5] Nationally, nonfarm labor productivity soared during the pandemic, increasing by 3.9% for the year ending 2021Q1.[6] Increased productivity translates into higher wages for workers and higher profits for Montana's businesses.

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3 *All personal income statistics from the BEA. Personal income is not in real terms.*

4 *Economic stimulus and increased UI benefits to workers are included in the transfers category. This figure only includes wage payments from employers to their workers, not including any stimulus from the government to the worker.*

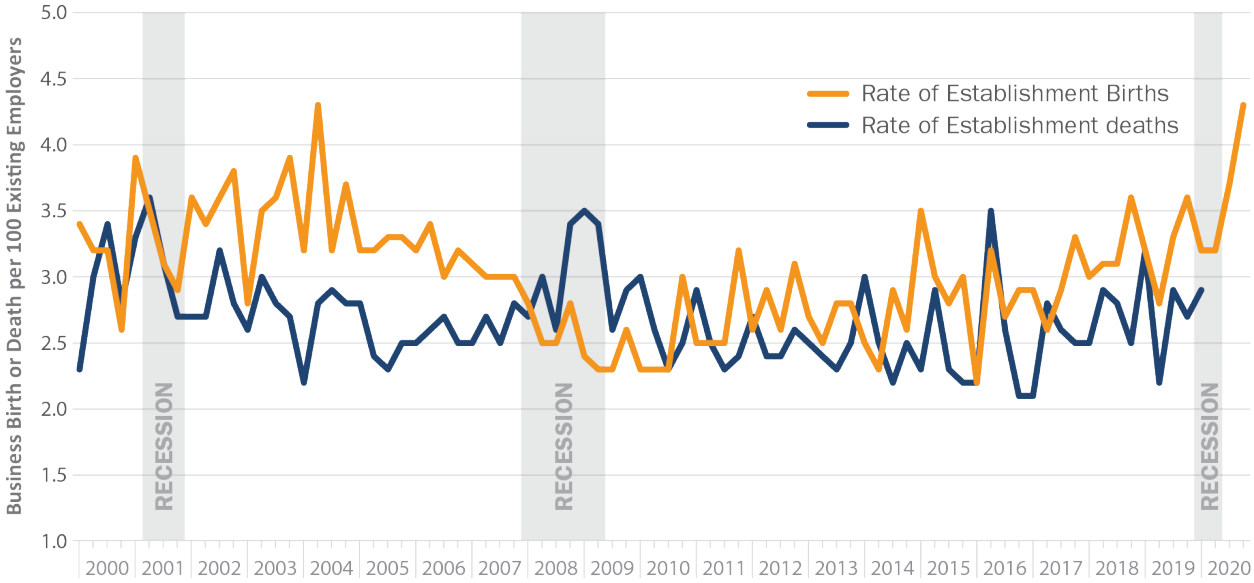
5 *Barrero, Jose Maria; Bloom, Nicholas; and Davis, Steven. "Why Working from Home will Stick" National Bureau of Economic Research Working Paper 28731. April 2021*

6 *Major Sector Productivity and Costs, Labor productivity (output per hour) of Private business, by BLS. First quarter, 2021.*

Businesses and Entrepreneurs Thrive

Montana's entrepreneurs thrived in the pandemic recovery. Business creation accelerated, with over 3,500 new businesses created in Montana in 2020. **The rate of new businesses formed in the state skyrocketed to the fastest rate in ten years**, as shown in **Figure 4**, **hitting a rate of 4.3 businesses births per 100 existing employers**. New establishments provide a significant source of employment in the state. Over 10,000 Montanans work for businesses opened in the last year, and 45,000 work for businesses less than five years old.[7] While most private employment is concentrated in firms over ten years old (78%), approximately 40% of all new jobs created in Montana originate in firms less than five years old. Just over half of Montana startups (53%) remain in business five years after their creation, making the state's entrepreneurs more successful than the national average.[8]

FIGURE 4:
RATE OF BUSINESS BIRTHS AND DEATHS AMONG PRIVATE ESTABLISHMENTS



Source: Bureau of Labor Statistics (BLS), Business Employment Dynamics. Private Establishments Rate of Birth and Death as share of existing establishments, all size classes.

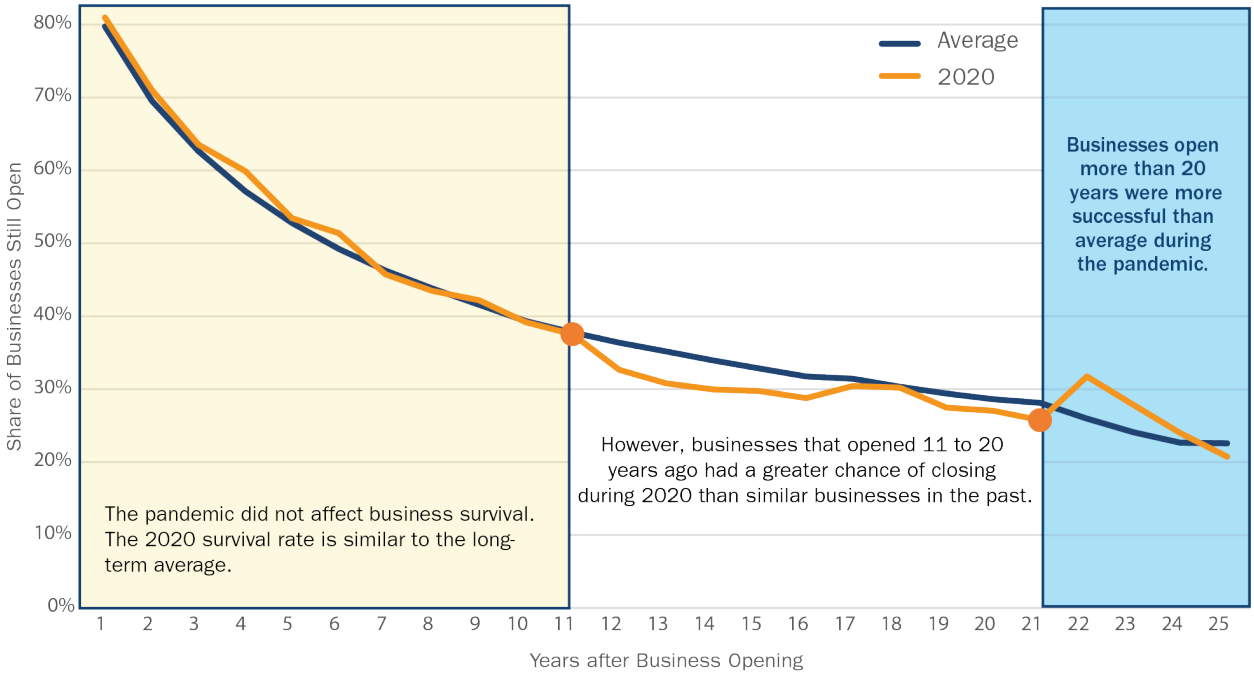
Existing businesses also demonstrated resiliency during the pandemic recession, with an improved bankruptcy rate in 2020 for both the U.S. and Montana.[9] **Figure 5** shows how business survival rates changed in 2020 compared to Montana's long-run average. Businesses created within the last ten years experienced little to no change in their chance of closing during the pandemic. However, businesses between ten and twenty years old were more likely to close in 2020 compared to the average. Overall, Montana business survival rates during the pandemic were only 0.3% lower than the long-term average.

7 *Business Employment Dynamics (BED), 2020. Private sector employment by firm age in Montana.*

8 *BED. 2020.*

9 *Flynn, Ed. Jan. 2021. "Weekly Bankruptcy Analysis" from the American Bankruptcy Institute. Available at https://abi-org.s3.amazonaws.com/Covid19/stats/Weekly_Update_January_25-31.pdf.*

FIGURE 5:
BUSINESS SURVIVAL RATES IN 2020 SIMILAR TO AVERAGE



Source: MTDLI using Business Employment Dynamics. Average calculated from 1994 to 2019.

Business closures were likely mitigated by the Paycheck Protection Program (PPP), which provided substantial federal assistance during the pandemic to help businesses retain staff. As of June 2021, 45,700 Montana businesses and nonprofits received a PPP loan for a total of $2.6 billion in support. At least 60% of PPP loan amounts were required to be used for payroll and employee benefit costs.[10] Bolstered by federal stimulus, Montana businesses proved to be innovative and resilient in weathering the pandemic-induced downturn.

Entrepreneurship is a core element of Montana's economy. **Montana has the 4th highest rate of business ownership in the nation, with 6.3% of Montana households reporting income from a business or farm.**[11] The number of self-employed individuals also increased over the last year, suggesting that workers who lost payroll jobs continued to work as self-employed, which often happens during recessions.[12] Entrepreneurialism helps elevate the income of many Montanans. Nearly 10% of personal income in the state comes from proprietor income, ranking Montana 14th highest among states in this metric.

10 Small Business Administration, Paycheck Protection Program Report approvals through 8/8/2020.

11 IPUMS Current Population Survey, ASEC 2020 sample compiled by MTDLI.

12 Bradley, Christopher. "Where are the Workers?" Montana Economy at a Glance, June 2019. Published by MTDLI. Available at lmi.mt.gov/_docs/Publications/EAG-Articles/0621-WhereAreTheWorkers.pdf.

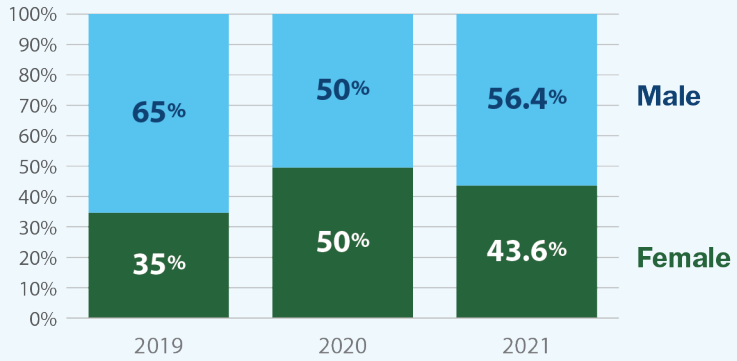
WHO WAS MOST IMPACTED BY THE PANDEMIC RECESSION?

The pandemic was difficult for all Montanans. But due to the specific industries affected, school closures, and differential affects between urban and rural areas, women, low wage workers, and workers in more populated counties were more likely to make unemployment insurance (UI) claims during the pandemic.

Women

Men typically comprise the largest share of claimants (with 65% of claims in 2019) largely due to the seasonal nature of the male-dominated construction industry. But the pandemic disproportionately impacted the industries of education, healthcare, and accommodation and food services, which have a high share of female workers. Women comprised half of UI claimants in 2020 and remain higher than usual in 2021.

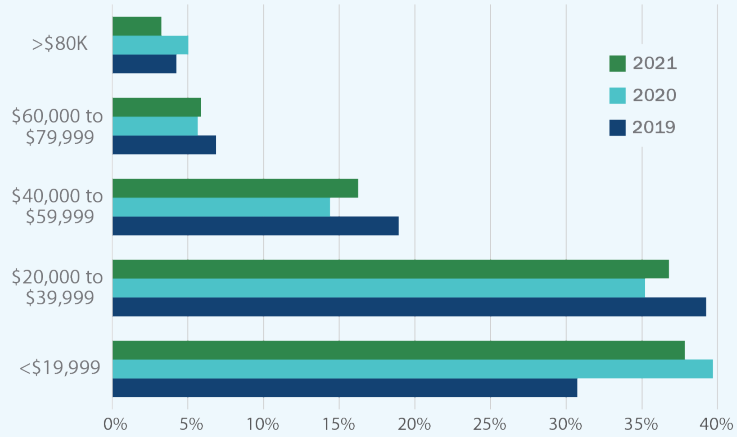
CLAIMANTS BY GENDER



Lower-Wage Workers

Due to the large impact of the pandemic on the accommodation and food service industry (which has the lowest average weekly wage of any Montana industry at about $370 per week), the share of UI claims among workers earning less than $20,000 increased dramatically during the pandemic. Roughly 75% of claimants during the pandemic earned less than $40,000 in their prior job. High wage workers earning over $80,000 per year in their prior job also comprised a higher share of UI claimants during the pandemic, but have decreased their share in 2021.

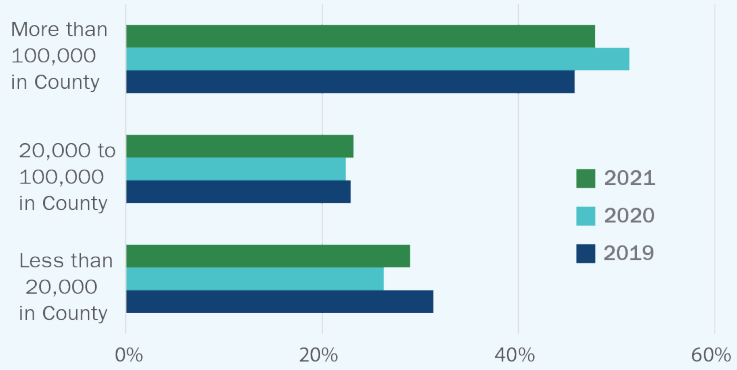
CLAIMANTS BY INCOME



Urban Areas

The impacts of COVID have also been more concentrated in urban areas. The virus spreads more easily in areas of greater population density, which resulted in greater economic impacts in urban areas. Claimants in counties with over 100,000 people accounted for over half of claimants in 2020.

CLAIMANTS BY COUNTY POPULATION



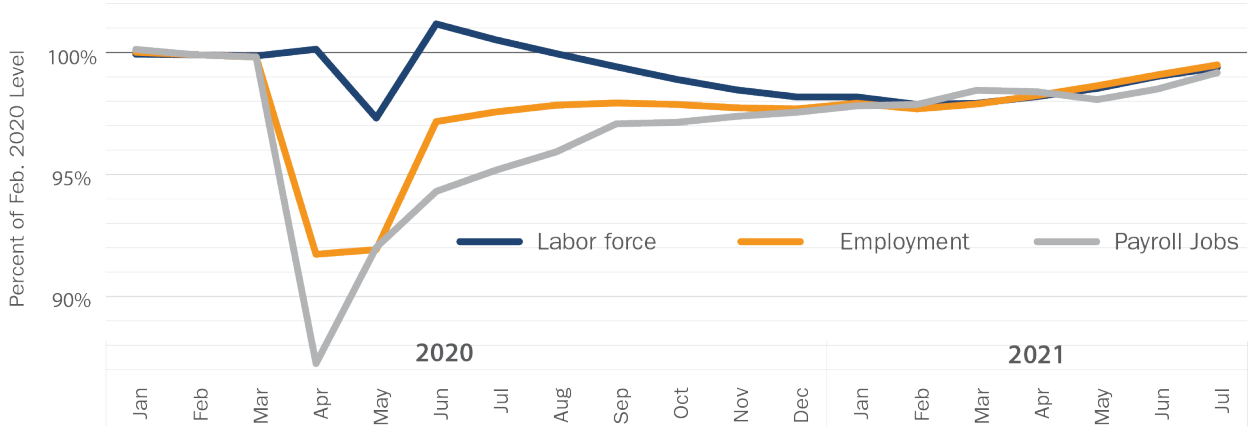
Sources: MTDLI Regular Unemployment Insurance (UI) claimant data. Does not include those made eligible for UI through the Pandemic Unemployment Assistance program. Population classifications provided by the Economic Research Service of the U.S. Department of Agriculture.

Employment Gains Limited by Worker Availability

The COVID-19 pandemic had a tumultuous and dramatic impact on employment levels in Montana. After Montana's first COVID-19 cases were reported in March 2020, total employment levels dropped by 8% or nearly 43,000 jobs.[13] Payroll employment dropped even further by over 10%.[14] Over 80,000 Montanans filed an unemployment claim in April.[15] Women, younger workers, those in lower-wage jobs, and workers in the more populated areas of the state were more impacted by the COVID-19 related business layoffs.

Thankfully, many of these job losses were temporary, with employment recovering within 2-3% of the previous pre-recession level by September (but still down over 10,000 jobs). After stagnating during the fall and winter, employment levels once again made gains in the spring of 2021 as vaccinations and additional stimulus led to strong business hiring. **Figure 6** illustrates the changes in payroll employment, total employment, and the labor force since the start of 2020, indexed to the pre-recession levels in February 2020. Now on Labor Day 2021, both **payroll and total employment levels are within 1% of the pre-recession peak with a full recovery expected in the upcoming months**. Throughout the pandemic and recovery, Montana has consistently remained in the top ten states for employment performance.[16]

FIGURE 6: INDEXED EMPLOYMENT AND LABOR FORCE



Source: MTDLI using CES & LAUS data published by MTDLI & BLS

Increased worker demand is also illustrated in **Figure 7** with the number of hires, departing workers, and internet job postings in Montana since January 2020. During most of 2020, job postings were lower than usual despite rising employment, suggesting that employers were rehiring former workers laid off in the shutdown rather than advertising open positions. Job postings increased as vaccinations became available and Montanans returned to normal economic activities. Quits increased in the late summer of 2020, which could have been a result of workers switching to more profitable jobs as hiring wages increased. However, some quits may have been the result of parents struggling between work and monitoring children learning

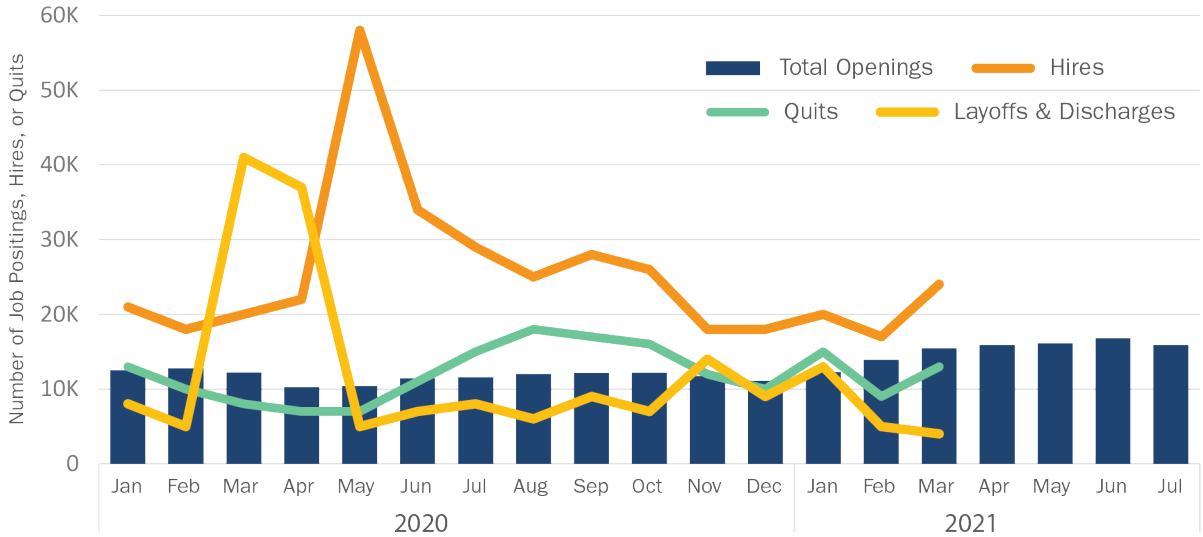
13 *LAUS, MTDLI & BLS*

14 *Current Employment Survey (CES), MTDLI & BLS*

15 *This number reflects the number who applied for Unemployment Insurance benefits in April 2020. Not all of these individuals qualified to receive benefits. The number of applicants is greater than the number of job losses due to the expansion of the unemployment insurance program to non-payroll workers, potential out-of-state applicants, and because those experiencing a cut in their work hours may also qualify for the program even though they are still working. See lmi.mt.gov/home/job-tracking for more information.*

16 *LAUS, MTDLI & BLS. Track the recovery at lmi.mt.gov/home/job-tracking*

FIGURE 7:
JOB POSTINGS, HIRES, AND QUITS



Source: MTDLI using job postings from mt.lmi.gov/home/job-tracking and state-level JOLTS data from.

at-home. In addition, the quits last fall were not immediately followed by increased job postings, suggesting that businesses left some positions unfilled until the economy indicated stronger growth and less uncertainty in the spring.

When businesses increased hiring in the spring of 2021, they were met by a shortage of available workers and higher average wages. The labor force steadily declined from June 2020 to early 2021 as Montanans struggled to balance work with the pandemic fallout (**Figure 6**). Thousands of workers left the labor force due to fears of contracting COVID-19 in the workplace, and 55,000 Montana parents decreased their work hours due to a lack of childcare and the need to monitor children learning at home.[17] In the long-term, demographics have also affected the Montana labor force. The decline in the labor force is explored in the "Workforce Shortages Challenge Montana's Economy" section. Surging demand for workers in the spring

17 *Current Population Survey Microdata from 2020 available through IPUMS.*

TYPES OF EMPLOYMENT

Payroll employment is a count of jobs that provide a regular wage or salary.

Total employment is a count of people who are working as self-employed, independent contractors, or in a payroll job.

During recessions, payroll employment typically falls more than total employment, as unemployed workers use self-employment or gigs to mitigate wage losses.

LABOR FORCE

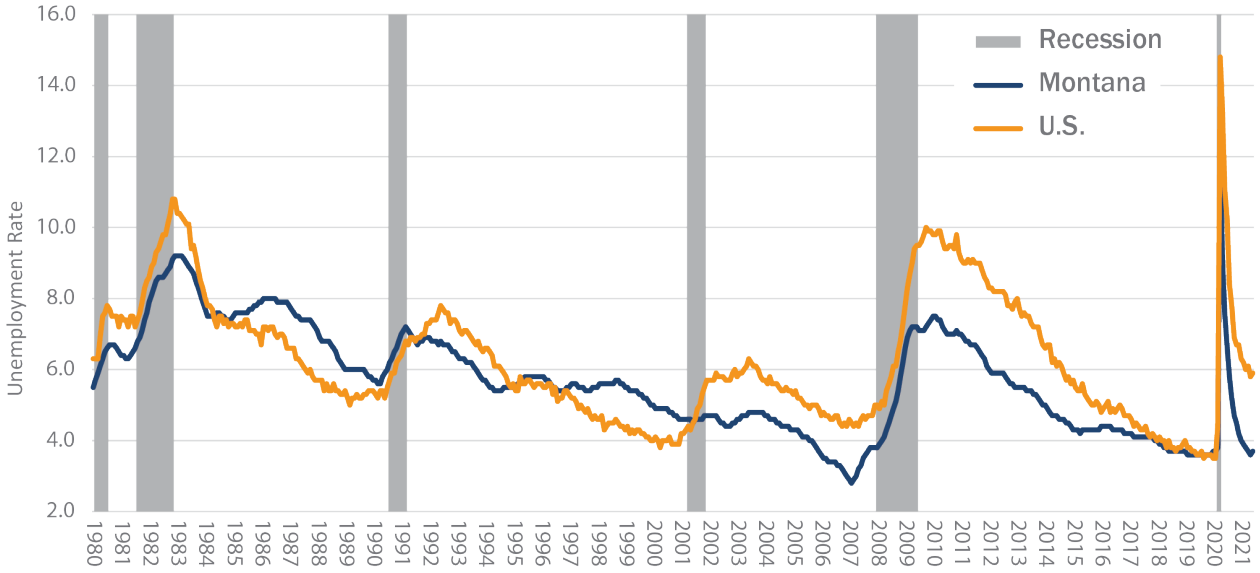
The labor force includes all people who are employed (either in payroll jobs or self-employed), plus those actively seeking work.

A growing labor force is an important ingredient for economic growth. Without available workers, businesses cannot expand and grow.

of 2021 combined with a smaller labor supply drove up wages, particularly among low-wage jobs, with reports of hiring bonuses and other incentives common in urban areas. **The labor force has started to improve since March as vaccinations reduced infection risk, with over 8,400 workers joining the labor force since February 2021**. At the end of June, the pandemic-related unemployment insurance benefits ended, along with the start of the Return to Work program (see Montana Seeks to Incentivize Work). The labor force is now only 0.5% lower than its pre-recession peak. If labor force participation continues to increase in the fall, the labor force will be fully recovered by the end of 2021.

The decline in the labor force and rapid employment growth also contributed to a swift recovery in Montana's unemployment rate, shown in **Figure 8**. The unemployment rate measures how difficult it is for someone looking for a job to find work, and is affected by both employment levels and the labor force.

FIGURE 8:
U.S. AND MONTANA UNEMPLOYMENT RATES SINCE 1980



Source: Local Area Unemployment Statistics, and Current Population Survey, Bureau of Labor Statistics.

The Distributional Effects of the Pandemic

While the pandemic was difficult for everyone, the impacts fell hardest on lower-wage workers. During the business closures in 2020, the brunt of the job losses were among jobs that require in-person contact, such as retail sales workers, waitresses, and hotel clerks, which hire lower-skilled workers and typically pay lower-than-average wages. In contrast, workers in jobs where remote work was possible, such as engineers, researchers, and accountants, were able to continue employment while isolating at home. Remote work jobs tend to be ones that require higher levels of education, and generally are higher paying jobs with benefits. Workers in these jobs were more likely to have access to retirement plans (thus benefiting from large stock market returns) and be homeowners benefiting from the increase in home prices.

The COVID recession resulted in unprecedented high unemployment of 11.9% in April, but then dropped rapidly compared to previous recessions, reaching 3.6% in July 2021. Prior recessions took much longer for unemployment to return to normal levels, with the unemployment rate reaching 4% five years after the end of the 2008 recession. The rapid decline of the unemployment rate to pre-pandemic levels can be attributed to both a smaller labor force and a strong employment recovery. Unemployment rates less than 4.0% indicate tight labor markets, where businesses must compete for workers through offering higher wages, better benefits, and a welcoming business culture.

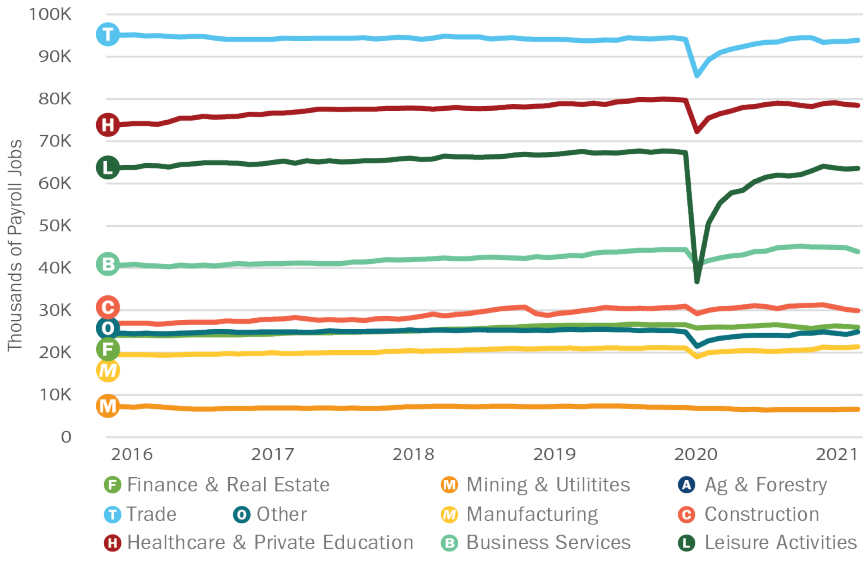
Performance by Industry

Adjustments to a post-pandemic world has been easier for some industries than others. Essential industries and those where remote work are more feasible were able to continue operation with less disruption. Consumer-driven industries were hard-hit as consumers pulled back on spending due to both economic and health concerns. The employment and real GDP by industry since 2016 are shown in **Figure 9**.

Montana's three largest private industries for employment include the trade, transportation, and utilities sector, healthcare and education, and leisure activities (which includes restaurants, bars, fast-food, hotels, ski resorts, and many tourist and entertainment businesses). These three industries include a high share of businesses that experienced a government-mandated closure during the pandemic. [18]Both healthcare and the trade sectors recovered quickly after reopening and are currently close to their pre-pandemic peak for both employment and real GDP. The leisure activities sector experienced a 45% drop in employment (over 30,000 jobs) during the pandemic downturn. Even now, the employment in the leisure activities industry remains 6% below the pre-pandemic peak, while real GDP remains about 14% below the peak. Although the industry is a large employer, leisure activities is among the smaller industries for real GDP production.

Montana's largest industry for real GDP is real estate and finance, which posted growth in value during the last two years due to strong real estate sales and rising home prices. The essential industries of agriculture, construction, and manufacturing also performed well during the pandemic. These industries had only small impacts from business closures and rapid recovery of employment and output.

FIGURE 9A: REAL GDP BY INDUSTRY



Source: BEA

18 *BLS spotlight, 2021. "Establishments that experienced a government-mandated closure during the pandemic." https://www.bls.gov/spotlight/2021/impact-of-the-coronavirus-pandemic-on-businesses-and-employees-by-industry/home.htm*

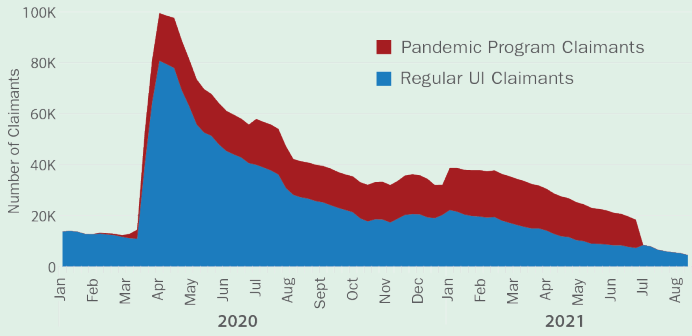
MONTANA SEEKS TO INCENTIVIZE WORK

In May of 2021, with the state's economy improving, COVID lockdowns lifted, and vaccinations becoming more widely available, Montana announced it would terminate several pandemic-related unemployment insurance programs that were boosting benefit levels and distorting labor market incentives. For workers with previous wages below $40,000 per year, the supplemental benefits resulted in weekly unemployment benefits that met or exceeded their prior wage earnings, disincentivizing work, and creating competition between the unemployment insurance program and low-wage employers.

At the end of June, unemployment eligibility ended for roughly 11,000 workers who returned to the labor market to seek work. The additional $300 in weekly benefits provided by federal stimulus also expired for the roughly 7,000 workers with continued unemployment insurance eligibility under the regular program.

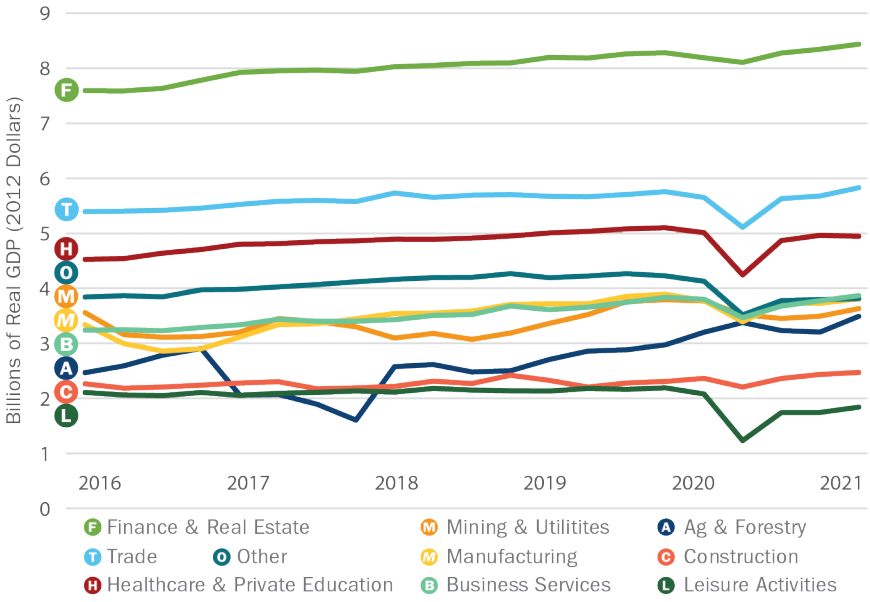
Montana replaced these supplemental benefits with a return-to-work bonus program, which seeks to correct the inverted incentives created by the temporary UI benefit increases. As of July 2021, roughly 3,200 Montanans had applied for the return-to-work program. The Montana Department of Labor & Industry continues to work with employers and unemployed workers to promote successful employment partnerships for all those seeking work.

UNEMPLOYMENT INSURANCE FILINGS



Source: MTDLI

FIGURE 9B: PAYROLL EMPLOYMENT BY INDUSTRY



Buoyed by the Coronavirus Food Assistance Program, Agriculture was the fastest growing industry for real GDP in the last year. Real GDP in agriculture grew by 14% in 2020 over the prior year, with Montana posting the 6th fastest growth among states for this metric.

Source: QCEW, MTDLI & BLS

Region and Reservation Economies

For most of the pandemic recession, Montana's rural areas outperformed the urban areas due to having a smaller share of employment in the hard-hit industries of leisure activities and retail establishments. In addition, social distancing requires fewer economic changes in areas with lower population density and fewer workers in the workplace. However, as the business restrictions were lifted and vaccinations became more prevalent in the spring of 2021, job growth in the urban areas of the state surged. **Figure 10** illustrates the performance of each region during the recession and recovery. Continued job growth will depend on which communities are able to bring new workers into the labor force, as all counties are experiencing low unemployment rates and tight labor markets.

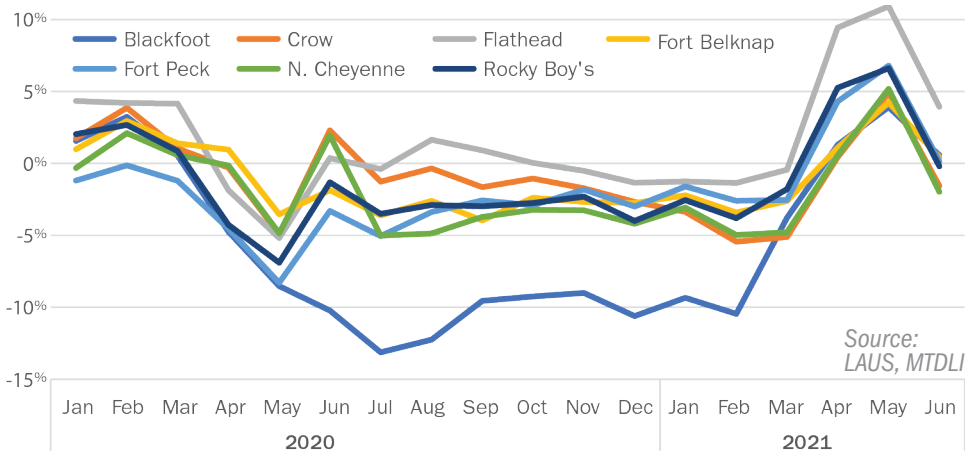
Figure 10: Economic Indicators by Region

Economic Indicator	Northwest	Southwest	North Central	South Central	Eastern
Employment in July 2021 compared to July 2019	103.1%	99.5%	99.3%	99.9%	100.7%
Labor Force in July 2021 compared to July 2019	101.2%	98.9%	98.5%	99.2%	100.2%
Real Wage Growth, 2019-2020	6.9%	8.5%	6.9%	4.2%	1.8%
2020 Average Annual Wage	$45,100	$49,650	$ 44,420	$50,860	$45,880

Source: US, CPI, & QCEW, MTDLI.

Reservation areas typically follow the economic performance of the surrounding areas. However, the impacts of a lagging economy can be more devastating on reservations due to lower incomes and higher poverty rates generally, leaving lower asset levels available to weather a downturn. The Blackfoot Reservation had the largest job losses during the pandemic because of fewer tourists to Glacier National Park and the related job losses in the leisure activities industry. Jobs remain below the pre-pandemic employment level on the Blackfeet Reservation. The Flathead Reservation posted the best performance during the pandemic largely due to the diverse economy in the Flathead Valley. The region recently experienced a surge in employment as travelers resumed excursions after vaccinations. The Crow and Northern Cheyenne reservations continue to be impacted by the partial closure of the Colstrip power plant and the reduction of nearby coal mining jobs.

FIGURE 11: EMPLOYMENT PERFORMANCE ON MONTANA RESERVATIONS



SECTION 2:
LINGERING IMPACTS FROM THE PANDEMIC

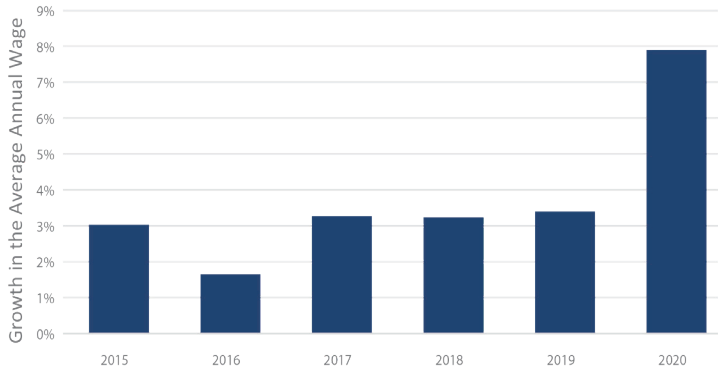
Although the recovery has been swift, Montana's economy is still experiencing impacts from the global pandemic. Due to the smaller labor force, employers have struggled to find workers, forcing costly closures. Supply chain constraints have reduced the availability of many goods and services, affecting the profitability of businesses and driving up inflation. Home prices have escalated, making it difficult for workers with low to moderate incomes to afford a place to live (although increasing the asset base of current homeowners). The impacts of the pandemic are not quite over.

Strong Wage Growth Benefits Workers

Tight labor markets and strong productivity growth have brought higher wages for Montana workers. Wage increases are important in distributing economic growth to more people in the economy, helping to address the disproportionate impacts of the recession on low-income households. Wage growth also benefits Montana businesses because higher incomes result in higher future demand. **Total wages paid in all payroll jobs increased by over $1 billion in 2020 over the prior year**, despite a drop in annual employment levels of roughly 13,600 jobs.

Average annual wages in payroll jobs increased by 7.9% in 2020 (up to $48,400), over double the wage growth rates posted in prior years (**Figure 12**). The dramatic increase in the average wage can be attributed to two factors. First, workers who retained their jobs had very strong wage gains due to increased productivity (some of which is due to remote work). Second, lower wage jobs were more likely to be lost during the pandemic (leaving only higher wage jobs and driving up the average). Nearly all areas of the state posted strong wage gain, with only a handful of counties posting recessionary losses. Average wage growth was highest in industries like professional services (which includes accounting, legal, and engineering firms, plus software development) and finance where remote work allowed for uninterrupted work throughout the year. Businesses were able to pass the savings from remote work on to their employees as wage gains.

FIGURE 12:
GROWTH IN AVERAGE ANNUAL WAGES



Source: QCEW, MTDLI.

Montanans are used to strong wage growth, with the **state ranking 8th among states for the fastest average annual wage growth over the last 10 years**. Strong wage growth is expected to continue in 2021 with tight labor markets driving rapid wage increases as employers compete to recruit workers. Real wage growth, or the amount of wage growth that exceeds inflation, was 6.6% in 2020. Workers who were able to retain their employment throughout the pandemic likely experienced significant improvement in their standard of living with this extremely high real wage growth.

Remote Work

In a state as big and beautiful as Montana, remote work offers tempting possibilities for living in the places we love while also avoiding long commutes and accessing a challenging career. Many rural Montana communities have identified remote work options as a successful economic development strategy for local workers to tap into higher paying jobs while also enjoying the benefits of rural life. Prior to the pandemic, remote work remained rare in Montana, with only 7% of workers working from home.[1] During the pandemic, over 30% of Montana's workers were engaged in telework, with this number declining again after employers allowed a return to the office.[2] Remote work was less common in Montana than other states during the pandemic due to a greater share of our employment in occupations that require in-person customer service and because so many of our jobs are in rural areas where social distancing is easy on the job site.[3]

Remote work offers employers many benefits as well. Worker productivity surged during the pandemic, which has been attributed to remote work. Studies suggest continuing remote work would result in a 5% gain in labor productivity.[4] In addition, more work hours are made available because many workers choose to use the time saved from commuting by working longer or in a second job.[5] However, the increase in remote work also presents challenges for Montana employers, who are now competing with national employers for workers in remote-possible jobs. In the long-term, having more Montanans with high wage jobs benefits our economy and increases the demand for goods and services produced by local businesses.

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1 *American Community Survey 1-year estimate, 2019.*

2 *Brynjolfsson, E. et al, 2020. COVID-19 and Remote Work: An Early Look at US Data. National Bureau of Economic Research working paper 27344. At www.nber.org/system/files/working_papers/w27344/w27344.pdf.*

3 *Holom, Nicholas. Telework and Non-telework Occupations: Effects of the Pandemic. Economy at a Glance, Montana Department of Labor & Industry, Dec 2020. At lmi.mt.gov/_docs/Publications/EAG-Articles/1220-TeleworkCOVID.pdf.*

4 *Barrero, et al, 2021.*

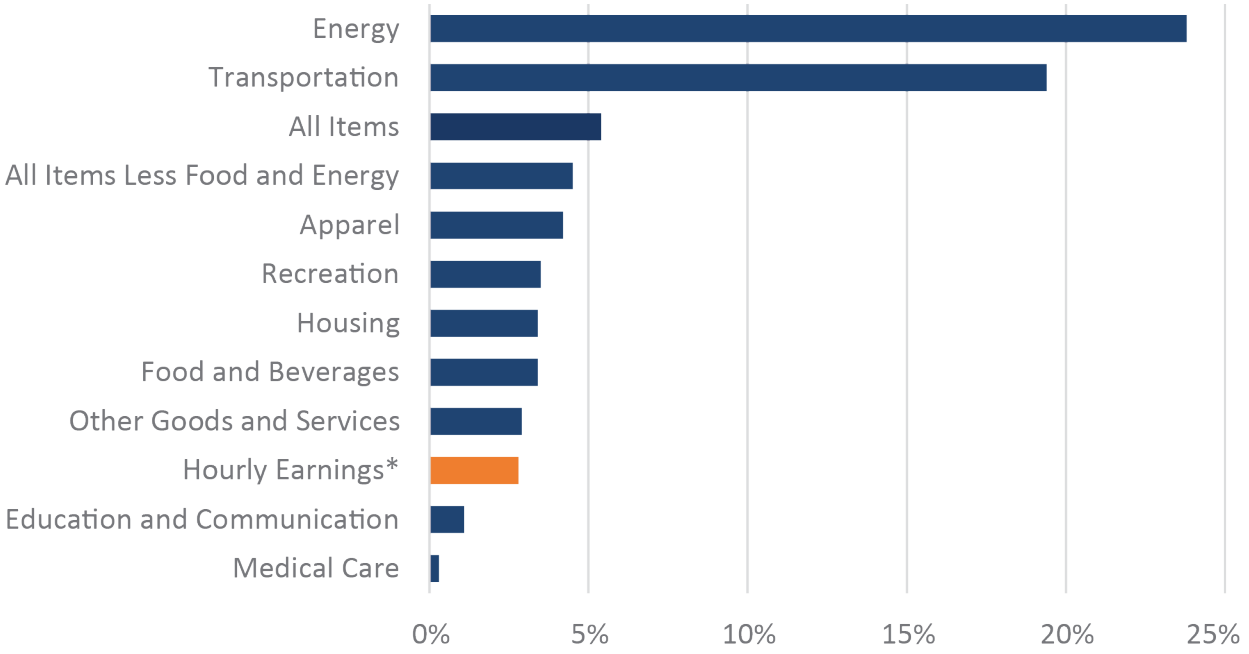
5 *Barrero, J.M., Bloom, N., & Davis, S. (2020). 60 Million fewer commuting hours per day: How American use time saved by working from home. https://voxeu.org/article/how-americans-use-time-saved-working-home*

Temporary Inflationary Pressure

Rising wages can result in inflation as employers pass higher labor costs on to consumers through higher prices for goods and services. Combined with supply shortages and increased consumer demand, prices have increased in 2021.[6] However, these increases are expected to be temporary and related to the COVID-19 pandemic. Supply-chain slowdowns in countries with high COVID-19 case counts have resulted in shortages of inputs needed by businesses, therefore raising prices. At the same time, consumer demand has been increasing as life returns to normal and people enjoy activities that were limited during the pandemic, such as traveling, dining out, shopping, attending events, and hosting weddings and other celebrations. The level of inflation in 2021 is also higher due to the "base effect," meaning current prices are being compared to the abnormally low prices during the summer of 2020.

Steady increases in prices are normal – inflation averaged 2% each year since 2000, but prices increased over 5% during summer 2021 compared with summer 2020. Prices for gasoline and other energy have increased by over 20% over the last year, as shown in **Figure 13**. Price changes been smaller for medical care and food. Higher than expected inflation can have both positive and negative impacts, often helping households with high levels of debt or large mortgages as they pay less in real terms, but hurting those who planned for lower costs for goods and services. High prices can also help or hurt Montana's industries. For example, high oil prices may lead to greater oil and gas production in the state, but high prices for gasoline reduce the number of tourists visiting Montana.

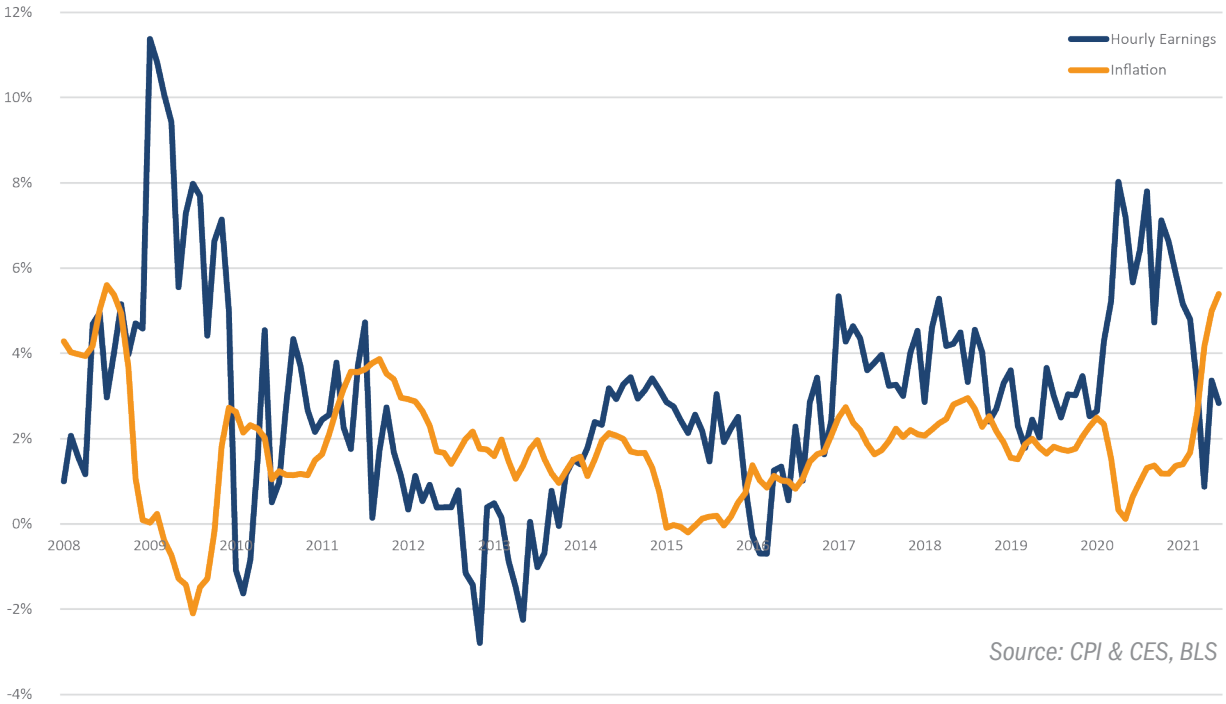
FIGURE 13: PERCENT CHANGE IN PRICES *(July 2021 compared with July 2020)*



Source: Consumer Price Index (CPI) and Current Employment Statistics (CES), BLS

6 *All prices measured using the Consumer Price Index for Urban Americans (CPI-U), BLS. Track inflation using MTDLI's dashboard https://lmi.mt.gov/Home/inflation.*

FIGURE 14: INFLATION AND MONTANA'S HOURLY WAGES



One important comparison is to consider whether the costs needed for living are rising faster or slower than wages. **Figure 13** illustrates the hourly wage rate in private payroll jobs compared to the rate of inflation since 2004. **Montanans have experienced real wage growth (wage growth faster than inflation) for most of the last decade**. Only in the most recent months has inflation outpaced wage growth (with wage growth tempered by the addition of many lower-wage jobs in restaurants and leisure activities during the reopening this spring). Over the two years ending June 2021, hourly wages have increased by 8.7% while the price level has increased by 6.1%, leaving workers with a 2.6% increase in their real hourly wage.

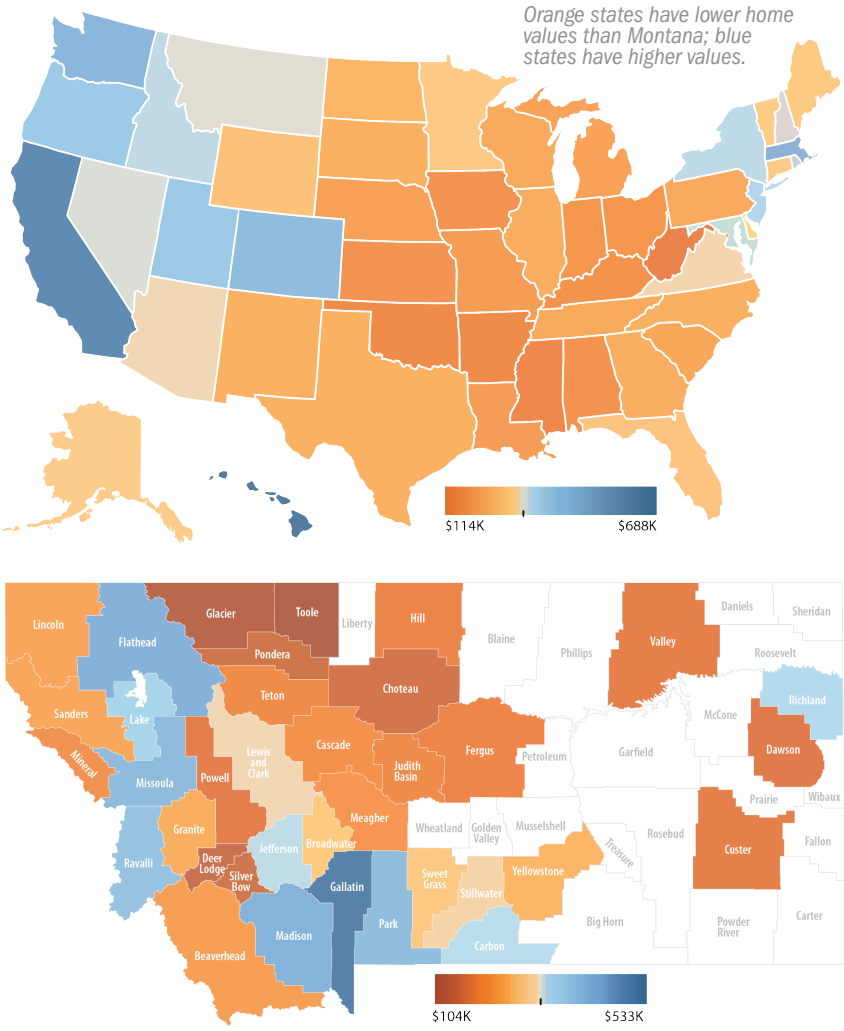
Rising Home Prices

Housing prices have been increasing quickly during pandemic, increasing the net worth of Montana's homeowners but also raising additional questions about housing affordability for workers. **Montana's typical home price was $327,000 for the year ending June 2021, up 10.3% from one year prior, similar to national appreciation**. Low mortgage rates are the primary driver of increased demand for home purchases over the last year, with housing supply shortages continuing to affect prices over the long-term. **Figure 15** shows typical home values across the U.S. States shaded orange have lower home prices than Montana, and states shaded blue have higher home prices. Montana has the 15th highest housing value of all fifty states.

With a typical home price of $327k, Montana has the 15th highest home value among states.

Home values and appreciation vary across Montana. As one of the fastest growing areas in the nation, Gallatin County had higher than average home values over the last several years as the local housing supply attempts to grow with population. Gallatin County's typical home value is now over half-million dollars, 60% higher than the statewide average. Other urban areas of the state have also seen significant price hikes this past year, with Flathead and Missoula Counties' home values now averaging over $400,000, up 15% from one year prior. High home values get passed on to rental properties, making affordability difficult for both prospective home buyers and renters. High home values in a state with one of the lowest average wages will be a primary challenge for Montana employers and workers in the upcoming years.

FIGURE 15:
TYPICAL HOME VALUES COMPARED WITH MONTANA



Source: Zillow Research Data. ZHVI - Includes single-family and cond-co-ops. Annual estimate from July 2020 to June 2021.

Workforce Shortages Challenge Economic Recovery

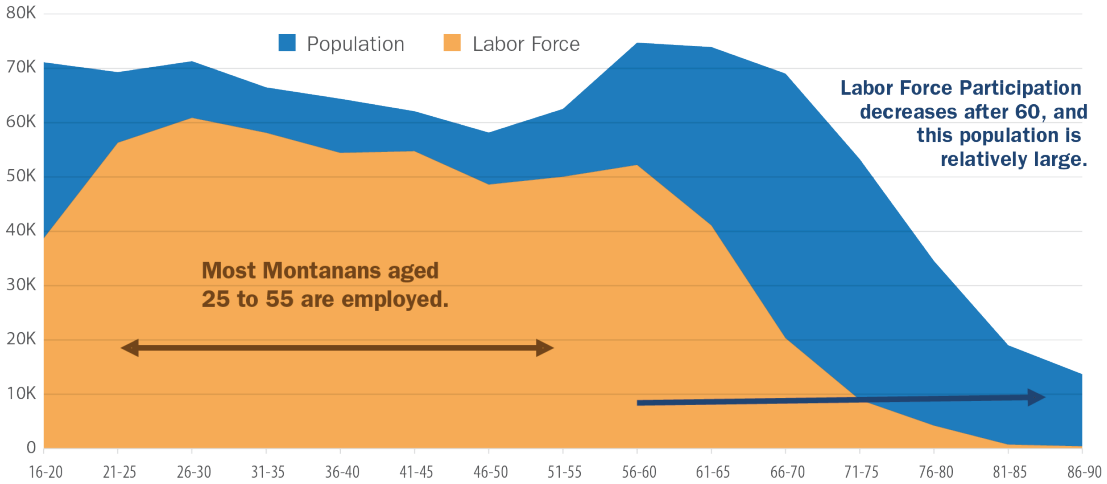
In the spring of 2021, many factors led to a surge in demand for goods and services (business reopening, additional stimulus, higher wages, and widespread vaccinations). Employers across the state suddenly started hiring but were met by a smaller labor force and a lack of available workers. Even with higher wages and sign-on bonuses, many employers had difficulty filling job openings. Montana is once again experiencing a labor shortage.

Even before the pandemic, changing demographics and barriers to work constrained the Montana labor force. The pandemic exacerbated these concerns and reduced labor force participation among Montanans. Labor force participation refers to the percentage of the population who are working or actively looking for work. Traditionally, Montana's labor force participation rates have been higher than the nation's, but the rate has slowly been declining as more of the population moves into retirement. In the long-term, an aging population is the cause for worker shortages in Montana, but the pandemic has worsened the existing labor constraints.

Figure 16 illustrates Montana's population and labor force by five-year age grouping, showing how the comparatively large baby boomers cohort are moving into retirement without enough young workers to replace them. Only about 37% of those older than 55 are in the labor force, with roughly 193,000 Montanans retired. In contrast, labor force participation rates for those aged 25 to 55 are fairly high, with 85% of the population working. However, there are about 345,000 Montanans older than 55 in the lower participation category, and only about 385,000 Montanans in the higher participation category. The 60 and over population represents roughly 23% of Montana's workforce. As more of Montana's population reaches retirement age, businesses will continue to have difficulty filling vacant jobs.

Labor participation rates are also lower (about 60%) for the population under 25 who typically are out of the labor force due to high school, college, or other worker training programs. The increased human capital from a well-trained workforce ultimately benefits the economy through improved productivity. Finding more opportunities for work-based training like internships and apprenticeships could improve labor force participation among young adults.

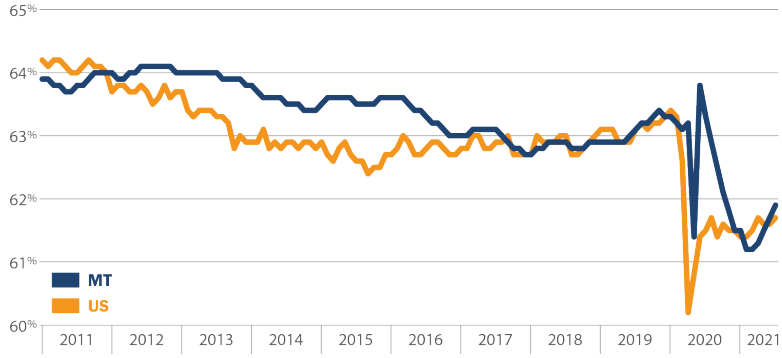
FIGURE 16: 2019 MONTANA POPULATION AND LABOR FORCE BY AGE



Source: ACS 1-Year Estimates Public Use Microdata Sample 2019

Aging demographics are the long-term cause for a constrained worker supply, but challenges balancing work with other life responsibilities were the force behind a decline in the labor force during the pandemic. Labor force participation rates dropped during 2020 for both the U.S. and Montana, shown in **Figure 17**. As of July 2021, Montana's labor force participation rate is still 1.3% below pre-pandemic levels. **If Montana's rate was the same in July 2021 as it was in February 2020, there would be 11,331 more workers participating in the labor force**. Instead, the labor force remains 2,850 workers below the pre-recession peak. The drop in workers is due to a lack of childcare, contracting COVID-19 or caring for someone with COVID-19, and the fear of contracting the virus. Although the aging workforce has constrained the worker supply, the number of retirees decreased during the pandemic, suggesting that retirements are not a significant cause of the short-term labor market tightness.[7]

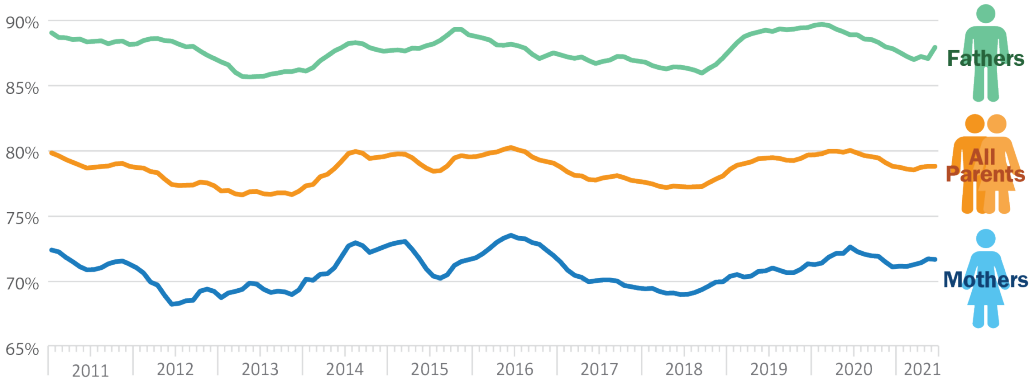
FIGURE 17: MONTANA & U.S. LABOR FORCE PARTICIPATION RATES



Source: CPS & LAUS, BLS

The childcare shortage was a drag on Montana's economy even before the pandemic, with licensed childcare capacity meeting only 44% of estimated demand and the majority of Montana businesses recognizing a shortage in their community. For those not of retirement age, caring for family is the most common reason for not participating in the labor force (about 11% of non-participants cite this reason). The school and daycare closures during the pandemic worsened this situation, causing 55,000 parents to reduce work hours. Typically, mothers have lower labor force participation than fathers due to family demands, but **Figure 18** demonstrates that father's labor force participation was also impacted due to the pandemic, falling by roughly 2.5% since the start of the pandemic. Increasing childcare capacity, flexible work hours, remote or telework, and other arrangements that allow parents greater ability to balance work with family demands will be critical to engaging more parents in the labor force.

FIGURE 18: Parent Labor Force Participation Rates

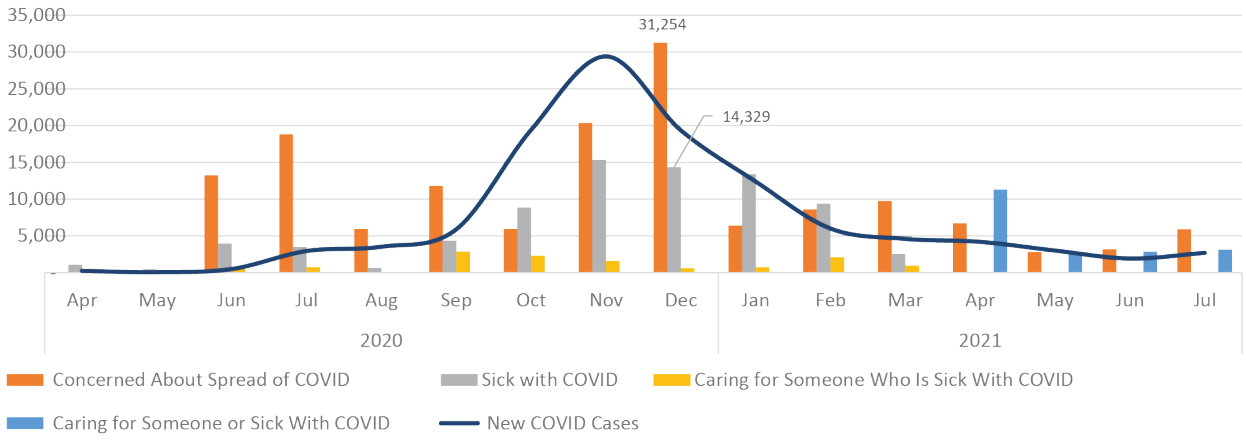


Source: IPUMS CPS January 2015 - May 2021, estimates are rolling averages

7 *Bradley, 2021*

In addition, **risk of contracting the virus or caring for others with the virus kept an average of 11,000 Montanans from working during the pandemic**. **Figure 19** illustrates the number of Montanans not working due to contracting COVID-19, caring for someone sick from the virus, or concerned about spreading the virus, plotted with the number of new COVID cases in Montana. All of these indicators hit their peak in the final quarter of 2020, with the number not working due to being sick from COVID at 15,300 workers, and an additional 31,300 individuals not working due to COVID-related concerns.

FIGURE 19: NUMBER OF MONTANANS NOT WORKING DUE TO COVID AND NEW COVID CASES BY MONTH



Source: Data on Montanans not working due to COVID from the Census Bureau Household Pulse Survey, with date based on the start of the two-week sample period. Data on new COVID cases from the CDC.

Now that vaccines are widely available to the population over 12 years of age, the number of workers who are out of the labor force because of the virus directly has dropped significantly, with number out due to COVID-related concerns falling below 5,900. However, COVID-19 outbreaks continue to threaten Montana's economic recovery. While vaccinations promise to minimize this labor force disruption, additional workers falling sick from COVID-19 reduces the number of work hours available to the Montana economy and creates uncertainties in staffing for many Montana businesses. Keeping case counts low will benefit both the economy and worker health.

The New Normal

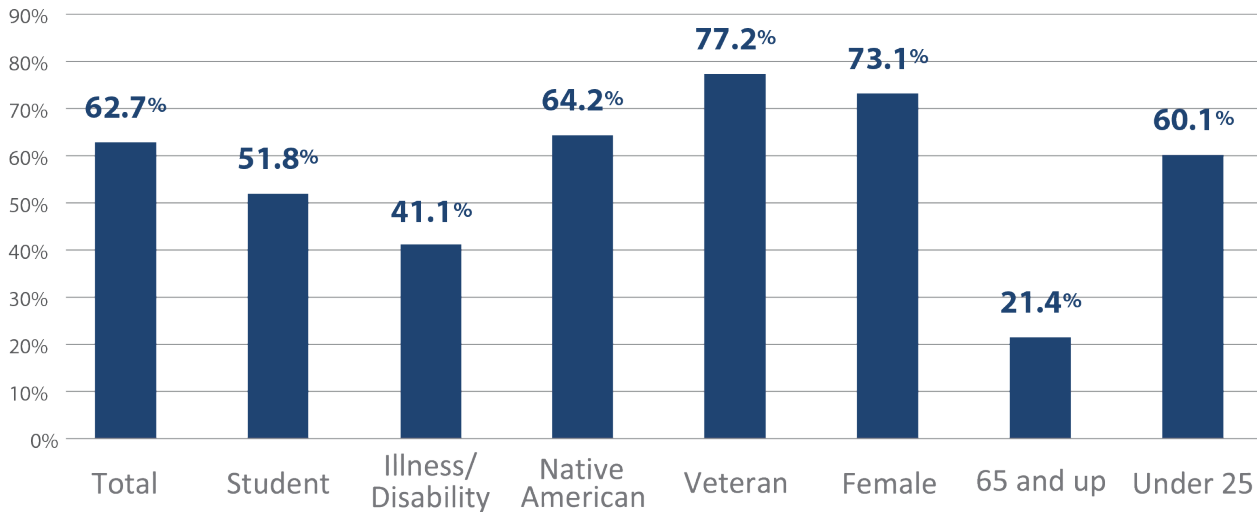
After a dramatic and challenging year, Montanans are ready to return to "normal" life. In many ways, the state's economy has returned to normal growth. Workers and businesses have demonstrated resiliency with a surprisingly strong recovery. The pandemic sparked Montanans' entrepreneurial spirit, creating new businesses and increasing profits. Workers adapted to the new work environments with increased productivity and higher real wages. Now that vaccines are widely available, our economy is surging, reflecting the energy and enthusiasm of consumers and tourists returning to normal social activities.

However, our economy is likely to be forever transformed by the pandemic. Remote work has changed the workplace for the better, with higher productivity and offering real potential to tap into underutilized, rural, and reservation worker groups. Greater understanding of how childcare availability impacts business health will likely result in more family-friendly work environments. The pandemic worsened the state's pre-existing worker shortage, but it also drove up wages, encouraging more Montanans to enter the workforce.

A limited worker supply is expected to be the most significant constraint to economic growth. Economic policy has shifted to focusing on engaging more people into the workforce, and ensuring existing workers have the training needed to compete in the global economy. Increases in automation, innovation, and human capital through training allows each Montana worker to achieve their fullest potential, thus reducing the economy's dependency on labor supply while increasing profitability and output. For example, automation in manufacturing can help make more standardized and reliable products, and reduce the need for workers to be physically present on the production line, resulting in a safer work environment. The knowledge required for manufacturing jobs may shift, but the higher productivity also promises higher wages for workers and higher profits for businesses.

Even with productivity gains to better utilize each worker, engaging more Montanans in the labor market will be critical for continued economic growth. There are a number of worker groups that are underutilized in our state, as shown in **Figure 20**. These workers often have barriers to work. For example, the labor force participation rate of mothers of young children is lower than average because of a lack of affordable childcare. Workers with disabilities may require adjustments in work hours or office equipment to be

FIGURE 20: LABOR FORCE PARTICIPATION RATES



Source: MTDLI, using CPS Microdata from IPUMS

comfortable in the office. In addition, unemployment rates tend to be higher in rural areas and on reservations, meaning that more work needs to be done to reduce geographic barriers to worker/employer connections. The increased prevalence of remote work with flexible work hours offers great potential as a tool to tap into under-utilized workers and rural areas. Finding solutions to engage more workers in the labor force will be a key part of continuing economic growth in Montana.

In addition to increasing the labor force, employers can also increase the hours of part-time workers to meet demands. In general, Montana's labor force participation rate is higher than the U.S. because there is a larger share of people working in part-time jobs as opposed to not working at all. In many ways, part-time work increases the worker supply, as workers who are parents, older, or in a training program may be able to work part-time, but not full-time. However, the average work week in Montana fell during the pandemic, moving from 33.4 hours per week in 2019 to 32.8 hours per week in 2020. **If Montanans would have maintained a 33.4 hour work week in 2020, they would have worked nearly 230,000 more hours – equivalent to 5,700 full-time, year-round employees.** Part-time workers could be better utilized to resolve Montana's workforce challenges.

As Montana moves into the post-pandemic world, the new normal is still unknown. Certainly, workers will continue to be in high demand, ensuring greater focus on job quality and higher productivity through worker training and automation. Tapping into underutilized worker groups and more full-time work will also help create additional work hours. However, the resiliency of Montanans demonstrated over the past year can only provide reassurance that future challenges will be met with the same determination and perseverance. Montana's economy is set to meet these challenges and take advantage of the opportunities available in the post-pandemic world.

Ways Businesses can Find More Workers

1. **Access the unemployed** – go to lmi.mt.gov/Home/Job-Tracking#accordion1-pane6 to see the prior occupations, locations, and demographics of those currently receiving unemployment insurance benefits.
2. **Access Underutilized Groups with Increased Flexibility** - parents, those living on reservations, retirees, students, and those with disabilities often struggle to find work opportunities that allow them to work while achieving their other life goals. Offering contract work to retirees could tap into their work experience while also allowing an undemanding work schedule. Offering childcare to parents would earn you both a worker and their gratitude. Remote work can save commuting time for time-strapped workers, and can tap into workers in the rural areas of our state.
3. **Train your own** – Employers can help students balance work with a full-time school schedule by offering internships and apprenticeships as early as high school. Not only does this practice allow businesses to identify the best recruits, students are better trained through on-the-job experience and more likely to stay in Montana after graduation. Learn more about Montana's Registered Apprenticeship program at apprenticeship.mt.gov.
4. **Increase work hours of existing employees** – The number of part-time workers increased significantly during the pandemic, and remains high in 2021 even as employers are seeking new workers. Some of these workers are likely balancing multiple part-time jobs, which causes difficulty scheduling for both employers and the worker. Planning work shifts far in advance can give workers more time to schedule daycare and other jobs around part-time work, although it also results in more changes to the schedule.
5. **Increase Worker Productivity and Automation** – Automation and technology improvement gets a bad rap for replacing workers with machines, but each worker can achieve their full productivity potential through technology. Workers may need additional training to understand how to operate the machines that improve the quality and quantity of their work.

Montana Department of
LABOR & INDUSTRY

Research and Analysis Bureau
P. O. Box 1728
Helena, MT 59624-1728
Phone: (406) 444-4100
www.lmi.mt.gov

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