

**DEPARTMENT OF COMMERCE TESTIMONY ON ECONOMIC ACTIVITY IN WESTERN NORTH
DAKOTA AND ECONOMIC GROWTH IN THE STATE
SEPTEMBER 19, 2012, 10:00 A.M.
GOVERNMENT SERVICES COMMITTEE
ROUGH RIDER ROOM, STATE CAPITOL
REPRESENTATIVE JEFF DELZER, CHAIRMAN**

PAUL GOVIG – DEPUTY COMMISSIONER, ND DEPARTMENT OF COMMERCE

Good morning, Mr. Chairman and members of the Government Services Committee, my name is Paul Govig, Deputy Commissioner of the North Dakota Department of Commerce.

I'm here today to speak to you about two topics: economic activity in western North Dakota and economic growth in the state within the past five years as measured by personal income and gross state product.

Economic Activity in Western North Dakota

As you are aware, western North Dakota has seen tremendous economic growth over the past few years caused primarily by oil and natural gas development. Barring any new federal regulatory hurdles or a significant drop in oil prices, this economic growth should continue well into the future.

Bentek Study

The North Dakota Pipeline Authority and the North Dakota Industrial Commission commissioned Bentek to conduct a study to forecast natural gas production growth through 2025. This study predicts that gross gas production will increase nearly six-fold from 536 MMcf/d in 2011 to 3.1 Bcf/d in 2025.

This study also examined the oil production and forecasts production could reach 2 MMb/d in 2025. Bentek predicts the number of wells drilled will be maintained at approximately 2,400 per year through 2021, but will be with a declining number of rigs due to efficiency gains. The example cited in Bentek's report is an average of 19 days per well for a single rig to drill four wells on a pad, compared to an average of 30 days to drill a single well from a pad.

Value-Added Opportunities

The abundance of energy resources are leading to value-added opportunities similar to what has occurred in the state with agriculture. This is evidenced by the possibility of a \$1.2 billion fertilizer plant that is being planned near Spiritwood. This would be the largest project within the state in recent history.

Barriers to Future Growth

The two largest barriers to continued growth in western North Dakota are infrastructure and workforce. As you are well aware, the legislature has dedicated \$1.2 billion towards infrastructure in western North Dakota. There is still a ways to go before we catch up, but there are positive steps that have taken place. For example, a temporary truck reliever route is in place west of Williston and another one on the east side will be completed later this year.

Major issues impacting the availability of workforce include housing and daycare. The state of North Dakota has taken significant steps to address the housing needs. State lawmakers created a new Housing Incentive Fund that provides up to \$15 million in incentives for developers to construct affordable multi-family housing units. Oil-impacted communities have also utilized the State's Energy Impact Grant funds to extend sewer lines, expand water supply systems, extend streets and to complete other infrastructure upgrades that directly support greater development of housing projects. Progress has been made, with the number of new housing units averaging approximately 2,000 during the 2000s accelerating to 6,700 in 2011 and on pace to reach 8,000 in 2012.

A comprehensive, statewide housing study will be released in the next couple weeks that will provide a forecast for housing needs through 2025. This study will also include population forecasts by county and the top 12 cities. The results of the study will be important to demonstrate to developers the continued demand for new housing and will provide planners needed information.

Economic Growth

Personal Income

In North Dakota, personal income increased by 46.4% from \$21.4 billion in 2006 to \$31.3 billion in 2011. This included a more than doubling of farm income from \$0.8 billion to \$2.2 billion. Not surprisingly, the largest growth in nonfarm income was tied to mining, which saw a growth of 304.5%. The largest contributors to the personal income growth included:

- Farm earnings (increased by \$1.4 billion which was 14% of total personal income increase)
- Mining (increased by \$1.3 billion which was 12.8% of total personal income increase)
- Government (increased by \$900 million which was 9.1% of total personal income increase)

North Dakota's per capita personal income grew by 39% from \$32,914 in 2006 to \$45,747 in 2011. Over that same time period, the U.S. average increase was 10.4%. North Dakota went from 87.3% of the national average to nearly 110%. North Dakota has moved from being ranked 38th among U.S. states in 2005 to now being 9th.

Gross Domestic Product by State

North Dakota's gross domestic product has grown by 54.7% from \$26 billion in 2006 to \$40.3 billion in 2011. The largest contributors to the GDP growth included:

- Mining (increased by \$2.4 billion which was 17% of the total GDP increase)
- Agriculture, forestry, fishing, and hunting (increased by \$1.9 billion which was 13% of the total GDP increase)
- Finance and insurance (increased by \$1.8 billion which was 12.5% of the total GDP increase)
- Real estate and rental and leasing (increased by \$1.6 billion which was 11.4% of the total GDP increase)

As a share of the economy:

- Mining increased five percent points from 2.7% of GDP in 2006 to 7.8% of GDP in 2011.

- Agriculture increased 2.6 percentage points from 5.8% of GDP in 2006 to 8.4% of GDP in 2011.
- Finance and insurance increased 2.4 percentage points from 5.8% of GDP in 2006 to 8.2% of GDP in 2011.
- The largest decrease was government which decreased 3.3 percentage points from 15.8% of GDP in 2006 to 12.5% of GDP in 2011.

Other Measures

Personal income and gross domestic product are only two of the measures which demonstrate North Dakota's growing economic strength. We've handed out a document that shows the progress made over the past decade. Examples include:

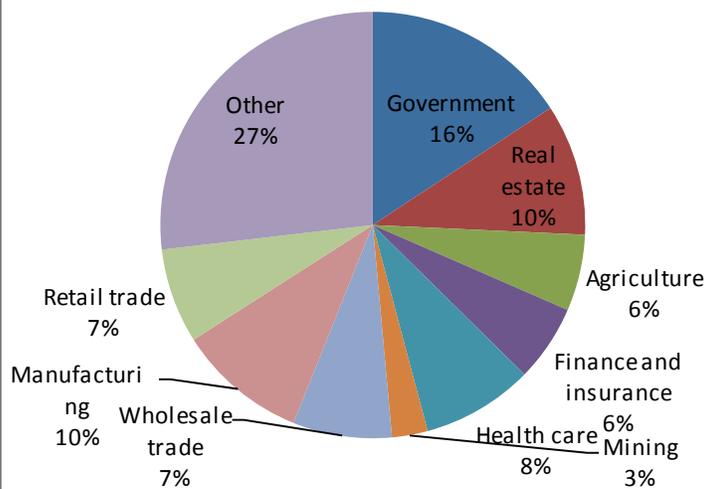
- North Dakota lead the nation in growth in average wages in 2011. In the past five years, annual average wages have grown by over \$10,000.
- Exports have more than doubled in the past five years.
- Over 40,000 jobs were added between 2006 and 2011.
- The population has increased 34,500 between 2006 and 2011, an increase of 5.3% and greater than the national increase of 4.4%.

Mr. Chairman and members of the Government Services Committee, thank you for allowing me the time to visit with you today. That concludes my testimony and I am happy to entertain any questions.

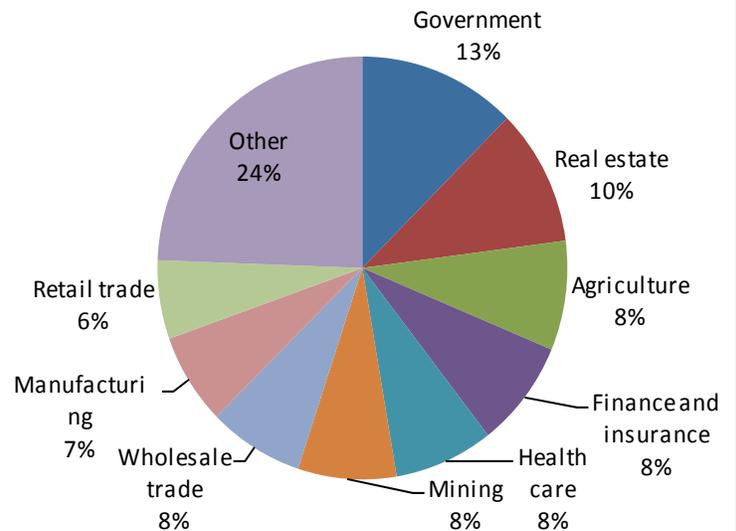
Gross Domestic Product by State (millions of current dollars)

	2006	2007	2008	2009	2010	2011	Growth 2006-2011
All industry total	26063	28549	31769	31997	35654	40328	14265
Agriculture, forestry, fishing, and hunting	1512	2461	3509	2868	3169	3376	1864
Mining	710	877	1312	1138	1837	3130	2420
Utilities	720	763	851	841	872	833	113
Construction	1128	1165	1275	1381	1432	1719	591
Manufacturing	2574	2609	2815	2394	2579	2807	233
Wholesale trade	1962	2034	2250	2286	2559	3034	1072
Retail trade	1873	1952	1961	2055	2247	2430	557
Transportation and warehousing	1133	1175	1331	1300	1508	1956	823
Information	877	964	964	1014	1016	1062	185
Finance and insurance	1520	1720	1982	2432	3167	3307	1787
Real estate and rental and leasing	2596	2968	3444	3506	3588	4219	1623
Professional, scientific, and technical services	882	945	1059	1045	1175	1304	422
Management of companies and enterprises	291	349	358	367	388	423	132
Administrative and waste management services	422	443	452	456	480	556	134
Educational services	98	102	108	112	115	121	23
Health care and social assistance	2212	2337	2536	2682	2908	3152	940
Arts, entertainment, and recreation	102	106	104	111	119	123	21
Accommodation and food services	683	738	751	761	859	950	267
Other services, except government	661	668	668	696	746	796	135
Government	4107	4172	4038	4549	4890	5031	924

2006 Share of GDP



2011 Share of GDP



Personal income by major source and earnings by NAICS industry

Description	2006	2007	2008	2009	2010	2011	Growth 2006-2011
Personal income	21375002	23637125	26879550	26458931	28934964	31287765	9912763
Population (persons)	649422	652822	657569	664968	674629	683932	34510
Per capita personal income (dollars)	32914	36208	40877	39790	42890	45747	12833
Derivation of personal income							
Earnings by place of work	17157309	18741212	21294593	20889683	23176753	25385589	8228280
less: Contributions for government social insurance	2055062	2165579	2402232	2493161	2675664	2744756	689694
plus: Adjustment for residence	-680414	-748616	-815351	-796762	-830891	-1041990	-361576
equals: Net earnings by place of residence	14421833	15827017	18077010	17599760	19670198	21598843	7177010
plus: Dividends, interest, and rent	3675960	4266828	4997294	4637813	4799292	5074174	1398214
plus: Personal current transfer receipts	3277209	3543280	3805246	4221358	4465474	4614748	1337539
Earnings by place of work (thousands of dollars)							
Components of earnings							
Wage and salary disbursements	11536430	12396185	13443535	13693719	14828101	16917684	5381254
Supplements to wages and salaries	2974869	3047101	3413011	3631118	3882753	4269221	1294352
Proprietors' income	2646010	3297926	4438047	3564846	4465899	4198684	1552674
Earnings by industry							
Farm earnings	786534	1622200	2818630	2035288	2600213	2181964	1395430
Nonfarm earnings	16370775	17119012	18475963	18854395	20576540	23203625	6832850
Private nonfarm earnings	12647222	13266998	14438427	14546554	16018693	18573828	5926606
Forestry, fishing, and related activities	91871	98479	112947	101592	100024	101985	10114
Mining	416546	457362	690318	607404	989699	1683057	1266511
Utilities	331206	336589	382285	378746	390464	405685	74479
Construction	1207359	1256017	1396352	1460877	1557306	1857045	649686
Manufacturing	1334507	1393861	1454616	1302505	1445389	1530989	196482
Wholesale trade	1071937	1156412	1259120	1294714	1413424	1684125	612188
Retail trade	1248789	1289324	1308468	1350049	1441383	1564424	315635
Transportation and warehousing	743675	766412	826131	859766	972841	1271649	527974
Information	428033	460688	469149	473840	477737	492829	64796
Finance and insurance	848507	901394	969666	993846	1032929	1118273	269766
Real estate and rental and leasing	209585	178226	324412	325544	383401	495080	285495
Professional, scientific, and technical services	751045	801241	894398	877295	969176	1077563	326518
Management of companies and enterprises	252512	300534	301241	316293	335618	364713	112201
Administrative and waste management Services	370237	380001	385520	388267	403507	472649	102412
Educational services	90868	93889	97899	101448	104330	110992	20124
Health care and social assistance	2088422	2193008	2364500	2476494	2650097	2881779	793357
Arts, entertainment, and recreation	68874	71112	71346	76499	81514	85124	16250
Accommodation and food services	436346	475753	489817	494965	569873	628422	192076
Other services, except public administration	656903	656696	640242	666410	699981	747445	90542
Government and government enterprises	3723553	3852014	4037536	4307841	4557847	4629797	906244

North Dakota's Economic Progress since 2000

Created 66,500 Net New Jobs (Source: Job Service North Dakota, Labor Market Information Center, CES Unit <http://www.ndworkforceintelligence.com>)

In 2011 North Dakota had a nonfarm payroll employment level of 394,200; an increase of 65,550 from 2000 when ND had 327,700. An increase of 20.0%. Over the past five years this has increased 42,000; an increase of 11.9%.

Year	2000		2006	2007	2008	2009	2010	2011
Average Annual Employment	327,700		352,200	358,400	367,300	366,700	376,100	394,200
Change			7,500	6,200	8,900	-600	9,400	18,100

Nationally, in 2011 the nonfarm payroll employment level was 131,359,000; a decrease of 426,000 from the 2000 level of 131,785,000. A decrease of 0.32%. Over the past five years this has decreased 6,239,000; a decrease of 4.5%. (source: Bureau of Labor and Statistics <http://www.bls.gov/ces/home.htm>)

Average Wages have increased \$17,095 (Source: Job Service North Dakota, Labor Market Information Center, QCEW Unit <http://www.ndworkforceintelligence.com>)

The average annual wage in 2011 was \$41,778; an increase of \$17,095 since 2000 when the average wage was \$24,683. An increase of 69.3%. Over the past five years this has increased \$10,462; an increase of 33.4%.

Year	2000		2006	2007	2008	2009	2010	2011
Average Annual Wage	\$24,683		\$31,316	\$33,086	\$35,075	\$35,970	\$38,127	\$41,778
Change			\$ 1,361	\$1,770	\$1,989	\$895	\$2,157	\$3,651
US Average Annual Wage	\$35,323		\$42,535	\$44,458	\$45,563	\$45,559	\$46,742	\$48,040
Percent of U.S. Average	69.88%		73.62%	74.42%	76.98%	78.97%	81.55%	86.97%
Rank among U.S. States	49		47	47	45	45	41	30

Nationally, in 2011 the average annual wage was \$48,040; an increase of \$12,717 since 2000 when the average wage was \$35,323. An increase of 36.0%. Over the past five years this has increased \$5,505; an increase of 12.9%. (source: Bureau of Labor Statistics <http://www.bls.gov/cew/home.htm>)

Per capita personal income has increased over \$20,000 (source: Bureau of Economic Analysis <http://www.bea.gov/beat/regional/spi/>)

The per capita personal income in 2011 was \$45,747; an increase of \$20,155 since 2000 when the per capita personal income was \$25,592. An increase of 78.8%. Over the past five years this has increased \$12,833; an increase of 39%. North Dakota is now 109.8% of the national average.

Year	2000		2006	2007	2008	2009	2010	2011
Per capita personal income	\$25,592		\$32,914	\$36,208	\$40,877	\$39,790	\$42,890	\$45,747
Change	\$ 2,122		\$ 1,119	\$ 3,294	\$ 4,669	-\$1,087	\$ 3,100	\$2,857
Percent of U.S. Average	84.4%		87.3%	91.2%	99.8%	102.4%	107.4%	109.8%
Rank among U.S. States	38		38	27	17	17	10	9

Nationally, in 2011 the per capita personal income was \$41,663; an increase of \$11,344 since 2000 when the per capita personal income was \$30,319. An increase of 37.4%. Over the past five year this has increased \$3,938; an increase of 10.4%.

North Dakota's Economic Progress since 2000

Gross Domestic Product has grown by 120% (source: Bureau of Economic Analysis <http://www.bea.gov/regional/gsp/>)

North Dakota's gross domestic product by state in 2011 was \$40.328 billion; an increase of \$22.062 billion since 2000 when the gross domestic product by state was \$18.266 billion, which equates to a 120.8% increase. **Since 2000, ND's economy has averaged an annual growth rate of 7.52%.** Over the past five years GDP has grown by \$14.265 billion; an increase of 54.7% and an annual average growth rate of 9.2%.

Year	2000		2006	2007	2008	2009	2010	2011
Gross Domestic Product (millions of current dollars)	\$18,266		\$26,063	\$28,549	\$31,769	\$31,997	\$35,654	\$40,328
Change			\$1,393	\$2,486	\$3,220	\$228	\$3,657	\$4,674
Annual Growth Rate			5.6%	9.5%	11.3%	0.7%	11.4%	13.1%

Nationally, the gross domestic product in 2011 was \$14,981.0 billion; an increase of \$5,096.8 billion since 2000 when the gross domestic product was \$9,884.2 billion, which equates to a 51.6% increase. Since 2000, the national economy has averaged an annual growth rate of 3.88%. Over the past five years GDP has grown by \$1.692 billion; an increase of 12.7% and an annual average growth rate of 2.5%.

Exports have grown by 440% (source: Foreign Trade Division, U.S. Census Bureau. (<http://tse.export.gov/>))

North Dakota had \$3,393.097 million worth of exports in 2011; an increase of \$2,767.179 million since 2000 when the total value of exports was \$625.917 million. An increase of 440%. Over the past five year this has increased \$1.873 billion; an increase of 123.3%.

Year	2000		2006	2007	2008	2009	2010	2011
Value of Merchandise Exports (millions of current dollars)	\$625.9		\$1,519.6	\$2,046.7	\$2,772.2	\$2,193.0	\$2,536.4	\$3,393.1
Change			\$327.9	\$527.0	\$725.6	(\$579.2)	\$343.4	\$842.7
Annual Growth Rate			27.52%	34.68%	35.45%	-20.89%	15.66%	33.22%

The nation as a whole exported \$1,480,552.125 million in 2011; an increase of \$698,634.457 million since 2000 when the value of exports was \$781,917.667 million. An increase of 89.35%. Over the past five year this has increased \$454.6 billion; an increase of 44.3%.

Population has grown by nearly 42,000 (source: U.S. Census Bureau, U.S. Department of Commerce (<http://www.census.gov/popest/>))

North Dakota had a population of 683,932 in 2011; an increase of 41,909 since 2000 when the total population was 642,023. An increase of 6.5%. Over the past five years the population has increased 34,500; an increase of 5.3%.

Year	2000		2006	2007	2008	2009	2010	2011
Population	642,023		649,422	652,822	657,569	664,968	674,629	683,932
Change			3,339	3,400	4,747	7,399	9,661	9,303

The nation as a whole had a population of 311,591,917 in 2011; an increase of 29,429,506 since 2000 when the population was 281,421,906. An increase of 10.4%. Over the past five year the population has increased 13.2 million; an increase of 4.4%