
A Statistical Analysis of the
**North Dakota Lignite Energy Industry's Contribution
to the State Economy for 1998 and Projected for 1999**

Randal C. Coon and F. Larry Leistritz*

This report provides estimates of the lignite industry's contribution to the North Dakota economy, using key economic indicators such as retail trade activity, personal income, total business activity, employment, and tax revenues. The estimates are based on actual industry expenditures for 1998 and projected expenditures for 1999. This analysis contains two measures of the relative importance of the lignite energy industry in North Dakota. First, the industry's share of the state's total sales to final demand (or exports) is evaluated. Second, the business volume generated by the industry is compared to the total gross business volume for the state. Expenditures were obtained from a survey of firms involved in lignite-related activities (mining or conversion) in North Dakota.

The methods used for this analysis are similar to those described in Coon et al. (1983) and Coon and Leistritz (1986). Expenditures of companies involved in lignite-related activities in North Dakota constitute the basic data for the study. The North Dakota Input-Output Model was used to analyze these data. The model uses interdependence coefficients, or multipliers, that measure the level of total gross business volume generated in each sector from an additional dollar of sales to final demand in a given sector. The input-output model applies the industry's expenditures to these interdependence coefficients. For a complete description of the input-output model, a listing of the coefficients, and how the model can be used to perform an economic contribution study, see Coon et al. (1985 and 1989). Resulting levels of business activity were used to estimate tax revenues and indirect and induced employment, based on historic relationships (Coon et al. 1992). Lignite industry sales for final demand for 1997 and the resulting level of business activity were compared to 1997 state values (the most recent data available) to indicate the industry's role in the economy. All values in this analysis are expressed in terms of current year dollars (i.e., nominal dollars).

The expenditures of firms involved in lignite-related activities are assumed to work their way through the local economy the same as expenditures of firms in other sectors of the North Dakota economy. The estimated ratio of secondary employment (jobs generated in other sectors of the North Dakota economy) to direct employment (jobs in the mines and plants using lignite in the state) is higher for the lignite industry than for some other sectors of the state's economy. Firms in the lignite industry have higher levels of expenditures per employee than do most other economic sectors in the state, making the indirect employment per worker in the lignite and lignite conversion industries higher.

*Research specialist and professor, respectively, Department of Agricultural Economics, North Dakota State University, Fargo.

Results

The North Dakota lignite industry's in-state expenditures totaled \$429.2 million in 1998 and were projected at \$520.8 million for 1999 (Table 1), based on a survey of firms in the industry. Actual expenditures for 1998 were slightly lower than the level projected for that year--\$469.4 million (Coon and Leistriz 1998b). [Overall, expenditures during the 1987-1997 period were higher than those for earlier years. In fact, 1998 expenditures were 24 percent higher than those for 1986, which were \$346.2 million (Coon and Leistriz 1987). It should be noted, however, that inflation was about 41 percent, nationwide, over this period.]

Actual 1998 outlays were less than previous projections, resulting primarily because decreases in the household sector (payrolls) were not completely offset by construction increases. Low oil prices worldwide may also have contributed to less than expected growth in the lignite energy industries. Construction expenditures were lower than in 1996, the principal construction year for an anhydrous ammonia plant and an ammonium sulfate plant at the Dakota Gasification facility near Beulah. Construction expenditures are projected to grow substantially in 1999 as new projects are being planned, particularly a new CO₂ pipeline from the Dakota Gasification facility.

Expenditures from firms involved in lignite-related activities generated total business activity in excess of \$1.2 billion for each year (Table 2). Expenditures by lignite-related firms resulted in \$305.9 million of retail sales activity in the state in 1998 and are projected at \$346.0 million for 1999. Also, the industry's activities generated \$425.5 million in personal income in 1998, with the 1999 level projected to be \$486.5 million.

Table 1. Estimated North Dakota Direct Expenditures by Economic Sector for Companies Involved in Lignite-related Activities, 1998 and Preliminary 1999

Sector	1998	1999
---million dollars----		
Construction	65.2	148.0
Transportation	13.3	15.4
Communications and public utilities	37.6	37.7
Wholesale trade and misc. manufacturing	32.4	32.5
Retail trade	67.5	68.5
Finance, insurance, and real estate	38.2	38.5
Business and personal services	14.9	17.7
Professional and social services	24.3	19.9
Households	<u>135.8</u>	<u>142.6</u>
Total	429.2	520.8

Table 2. Estimated Direct Plus Indirect Personal Income, Retail Sales Activity, Business Activity for All Business Sectors, and Total Business Activity for Companies Involved in Lignite-related Activities, 1998 and Preliminary 1999

Item	1998	1999
--million dollars--		
Personal income	425.5	486.5
Retail sales	305.9	346.0
Business activity for all business sectors ^a	<u>747.8</u>	<u>902.7</u>
Total business activity	1,271.7	1,497.9
^a Includes all sectors except agriculture (livestock and crops), households, and government.		

Lignite industry companies contribute substantially to state tax revenues. Total taxes attributable to the industry were estimated to be \$61.6 million in 1998 and \$64.8 million in 1999 (Table 3). Coal severance and energy conversion taxes constituted 39 percent and 22 percent of the total, respectively, in 1998. In addition to the 2,914 workers directly employed in 1998 and the projected 2,885 workers for 1999, the industry supported jobs for nearly 15,000 indirect workers (secondary employment) from business activity attributable to the lignite industry in each of these years (Table 4).

Two measures can be used to show the importance of the lignite industry to the North Dakota economy: sales for final demand and business activity. When lignite energy industry sales for final demand for 1997 (\$846.0 million) were compared with the total economic base (sales for final demand or exports) for North Dakota for 1997, the last year the data were available (\$12,000.3 million), they comprised 7.0 percent of the state's total (Coon and Leistritz 1998b). When petroleum exploration, extraction, and refining were included, the energy sectors accounted for 12.1 percent of the state's total economic base in 1997. Business activity generated by the lignite energy industry's sales for final demand (\$1,920.7 million) was 5.0 percent of the 1997 state total gross business volume (\$38,726.9 million). These measures show that the lignite energy industry plays an important role in the North Dakota economy.

Table 3. Estimated State Tax Revenue Resulting from Activities of Companies Involved in Lignite-related Activities, 1998 and Preliminary 1999

Tax Revenue	1998	1999
--million dollars--		
Coal severance	24.3	27.8
Energy conversion	13.7	9.8
Sales and use	14.1	16.0
Personal and corporate income	7.9	9.1
Other	<u>1.6</u>	<u>2.1</u>
Total	61.6	64.8

Table 4. Estimated Direct and Secondary Employment for Companies Involved in Lignite-related Activities, 1998 and Preliminary 1999 (FTE)

Employment	1998	1999
Direct	2,914	2,885
Secondary	14,470	16,902

The lignite energy industry's economic contribution to the North Dakota economy has been assessed annually since 1982. The North Dakota Lignite Council, the North Dakota Industrial Commission, and recently the Lignite Energy Council have funded these studies. For a discussion of the annual economic contributions the lignite energy industry (that is, those firms involved in the mining or conversion of the state's lignite) has made from 1982 through 1996, see Coon et al. (1983) and Coon and Leistritz (annually 1985-1998).

References

- Coon, Randal C., and F. Larry Leistritz. 1985. *The Contribution of North Dakota's Lignite Industry to the State Economy, 1984 and 1985: A Statistical Analysis*. AE 85016. Fargo: North Dakota State University, Dept. of Agr. Econ.
- Coon, Randal C., and F. Larry Leistritz. 1986. *North Dakota Lignite Industry's Contribution to the State Economy*. Agr. Econ. Misc. Rpt. No. 99. Fargo: North Dakota State University, Dept. of Agr. Econ.
- Coon, Randal C., and F. Larry Leistritz. 1987. *The Contribution of North Dakota's Lignite Industry to the State Economy, 1986 and 1987: A Statistical Analysis*. AE 87003. Fargo: North Dakota State University, Dept. of Agr. Econ.
- Coon, Randal C., and F. Larry Leistritz. 1988. *A Statistical Analysis of the North Dakota Lignite Industry's Contribution to the State Economy for 1987 and Projected 1988*. AE88002. Fargo: North Dakota State University, Dept. of Agr. Econ.
- Coon, Randal C., and F. Larry Leistritz. 1989. *A Statistical Analysis of the North Dakota Lignite Industry's Contribution to the State Economy for 1988 and Projected 1989*. AE89008. Fargo: North Dakota State University, Dept. of Agr. Econ.
- Coon, Randal C., and F. Larry Leistritz. 1990. *A Statistical Analysis of the North Dakota Lignite Industry's Contribution to the State Economy for 1989 and Projected 1990*. AE90004. Fargo: North Dakota State University, Dept. of Agr. Econ.
- Coon, Randal C., and F. Larry Leistritz. 1991. *A Statistical Analysis of the North Dakota Lignite Industry's Contribution to the State Economy for 1990 and Projected 1991*. AE91002. Fargo: North Dakota State University, Dept. of Agr. Econ.
- Coon, Randal C., and F. Larry Leistritz. 1992. *A Statistical Analysis of the North Dakota Lignite Industry's Contribution to the State Economy for 1991 and Projected 1992*. AE92001. Fargo: North Dakota State University, Dept. of Agr. Econ.
- Coon, Randal C., and F. Larry Leistritz. 1993. *A Statistical Analysis of the North Dakota Lignite Energy's Contribution to the State Economy for 1992 and Projected 1993*. AE93001. Fargo: North Dakota State University, Dept. of Agr. Econ.
- Coon, Randal C., and F. Larry Leistritz. 1994. *A Statistical Analysis of the North Dakota Lignite Energy Industry's Contribution to the State Economy for 1993 and Projected for 1994*. AE94001. Fargo: North Dakota State University, Dept. of Agr. Econ.
- Coon, Randal C., and F. Larry Leistritz. 1995. *A Statistical Analysis of the North Dakota Lignite Energy Industry's Contribution to the State Economy for 1994 and Projected for 1995*. AE95002. Fargo: North Dakota State University, Dept. of Agr. Econ.
- Coon, Randal C., and F. Larry Leistritz. 1996. *A Statistical Analysis of the North Dakota Lignite Energy Industry's Contribution to the State Economy for 1995 and Projected for 1996*. AE96005. Fargo: North Dakota State University, Dept. of Agr. Econ.
- Coon, Randal C., and F. Larry Leistritz. 1997. *A Statistical Analysis of the North Dakota Lignite Energy Industry's Contribution to the State Economy for 1996 and Projected 1997*. AE97002. Fargo: North Dakota State University, Dept. of Agr. Econ.
- Coon, Randal C., and F. Larry Leistritz. 1998a. "Sales for Final Demand by Economic Sector." Unpublished data. Fargo: North Dakota State University, Dept. of Agr. Econ.
- Coon, Randal C., and F. Larry Leistritz. 1998b. *A Statistical Analysis of the North Dakota Lignite Energy Industry's Contribution to the State Economy for 1998 and Projected 1999*. AE998003. Fargo: North Dakota State University, Dept. of Agr. Econ.
- Coon, Randal C., F. Larry Leistritz, and Thor A. Hertsgaard. 1989. *North Dakota Input-Output Economic Projection Model (NDIO/EPM): Documentation and User's Guide*. Agr. Econ. Software Series No. 4. Fargo: North Dakota State University, Dept. of Agr. Econ.
- Coon, Randal C., F. Larry Leistritz, Thor A. Hertsgaard, and Arlen G. Leholm. 1985. *The North Dakota Input-Output Model: A Tool for Analyzing Economic Linkages*. Agr. Econ. Rpt. No. 187. Fargo: North Dakota State University, Dept. of Agr. Econ.
- Coon, Randal C., F. Larry Leistritz, and T. Alexander Majchrowicz. 1992. *The Role of Agriculture in the North Dakota Economy*. Agr. Econ. Stat. Series No. 50. Fargo: North Dakota State University, Dept. of Agr. Econ.

Coon, Randal C., John F. Mittleider, and F. Larry Leistritz. 1983. *Economic Analysis of the North Dakota Lignite Industry*. Agr. Econ. Misc. Rpt. No. 67. Fargo: North Dakota State University, Dept. of Agr. Econ.

NOTICE:

The analyses and views reported in this paper are those of the author. They are not necessarily endorsed by the Department of Agricultural Economics or by North Dakota State University.

North Dakota State University is committed to the policy that all persons shall have equal access to its programs, and employment without regard to race, color, creed, religion, national origin, sex, age, marital status, disability, public assistance status, veteran status, or sexual orientation.

Information on other titles in this series may be obtained from: Department of Agricultural Economics, North Dakota State University, P.O. Box 5636, Fargo, ND 58105. Telephone: 701-231-7441, Fax: 701-231-7400, or e-mail: cjensen@ndsuent.nodak.edu.

Copyright © 1999 by Randal C. Coon and F. Larry Leistritz. All rights reserved. Readers may make verbatim copies of this document for non-commercial purposes by any means, provided that this copyright notice appears on all such copies.