

local insights

spring 2013 bearriver

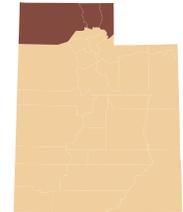


An economic and labor market analysis of the Bear River Area

vol. 1 issue 4 • jobs.utah.gov



Explaining Labor Force Trends in Bear River



BY NATALIE TOROSYAN, ECONOMIST

Economic indicators such as unemployment rates are widely recognized as barometers of economic health. In addition to unemployment rates, economists use another statistic to evaluate labor market activity: the labor force participation rate, which is often used to explain changes in the unemployment rate. In the Bear River region, what forces are responsible for movement in the labor force participation rate over time? How do the participation rates of subgroups by gender, age and ethnicity help us understand the components that affect the overall rate? Grasping how the labor force participation rate influences the interpretation

of the unemployment rate first requires an understanding of both measures. Both take measure of the civilian labor force, which consists of people who are at least 16 years old, are not on active duty in the armed forces and are either employed or unemployed but actively seeking employment. The unemployment rate is the proportion of the civilian labor force that is unemployed and actively looking for work. It is imperative to note that individuals who are unemployed but not actively seeking employment are excluded from both the labor force count as well as the unemployment rate.

The notion of a discouraged worker is directly related to this caveat. A discouraged worker is someone who

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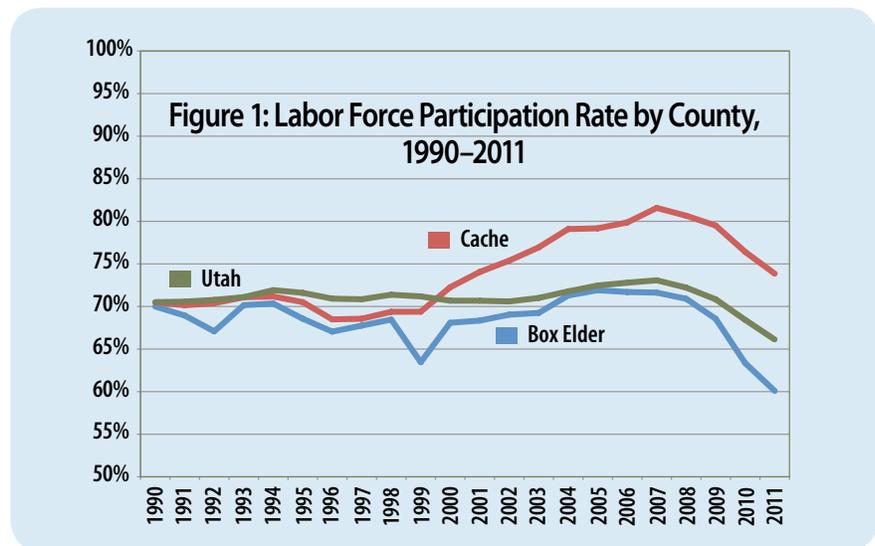
How do labor force participation rates by age, gender and ethnicity help explain the unemployment rate and other labor market trends in Bear River?

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While still considerably lower than peak pre-recession levels, employment in Bear River has stabilized since the steep declines of the recession.

Initial Claims as an Economic Indicator 8

Unemployment Insurance initial claims data from the past three years point toward an improving economy.



Source: U.S. Bureau of Labor Statistics, National Cancer Institute





Explaining Labor Force Trends (continued)

is out of work but has ceased to actively pursue employment, presumably because he or she has become discouraged about poor market conditions leading to an inability to secure employment. Thus, the percent of the working-age population that is either working or actively looking for work constitutes the labor force participation rate. If everyone 16 or older were either working or looking for work, then the labor force participation rate would be 100 percent, which does not happen.

Labor force participation rates give way to an interpretation of changes in the unemployment rate, which can decline for several reasons. The productive way it declines is when people in the labor force transition from unemployment to employment. Another way the unemployment rate can decrease, though, is when the unemployed cease their job search and drop out of the labor force, taking on the characteristics of discouraged workers. While this may contribute to a lower unemployment rate, it does not mean the economic environment

has improved; in reality, the labor force attachment has deteriorated. A look at the participation rate (especially during the recent recessionary period) lends itself to a better understanding of whether the unemployment decline occurred because more people found work or because more people left the labor force.

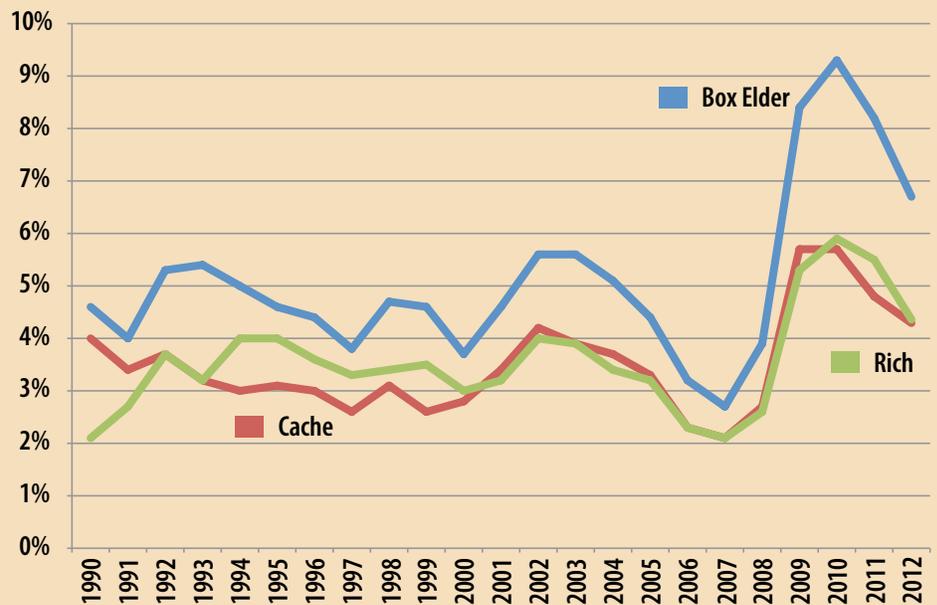
In the case of the latter, a drop in the unemployment rate indicates a weakness in the economy. If the unemployment and labor force participation rates simultaneously decline, the labor force might be signaling an increased departure of discouraged workers.

The rates of labor force participation among the Bear River region counties have diverged considerably since the mid-1990s. Figure 1 presents the region's labor force participation rate from 1990 to 2011. The rates trend more or less upward for all counties until the steep declines of the Great Recession. After the end of the Great Recession in 2009, participation rates continued to decay into 2011 with no signs of stabilizing.

One noticeable trend is the magnitude of loss in Box Elder County's rate, which began declining before the recession while the rates of both Utah and Cache County were still growing. But it was after the recession that Box Elder's participation rate began its extreme drop, falling from 69 percent in 2009 to 60 percent by 2011. By the end of 2011, Box Elder had lost nearly 4,470 jobs compared to its pre-recession employment peak. Around 71 percent of that loss was from declines in the manufacturing sector and another 24 percent from the construction sector. Collectively these sectors lost 4,250 jobs, a blow that was born primarily by males, who dominate these sectors. By 2011, Box Elder's participation rate was below the Utah average of 66 percent.

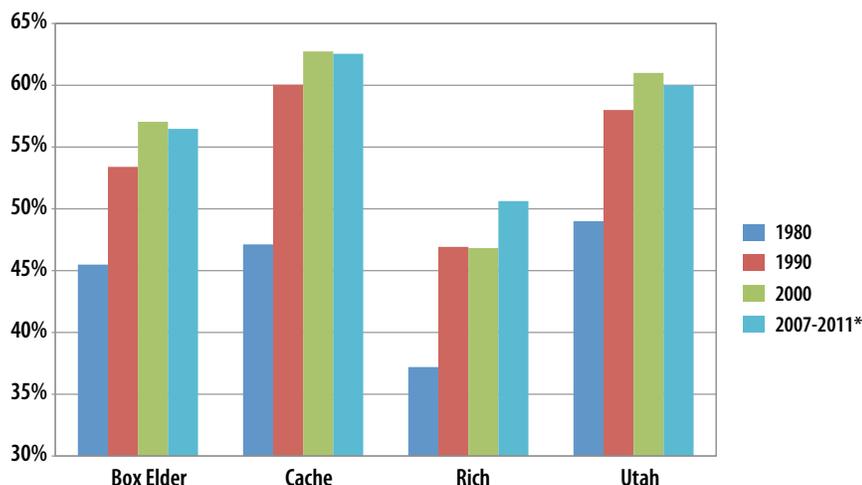
The participation rate in Cache was increasing just as employment was growing from 2000 to 2004. During this time, employment in the county grew by 2.3 percent compounded annually. Nearly every sector was adding jobs, and growth was happening at high rates. The finance/

Figure 2: Unemployment Rate by County, 1990–2012



Source: U.S. Bureau of Labor Statistics

Figure 3: Female Labor Force Participation Rate



* 2007–2011 ACS five-year estimates
Source: U.S. Census Bureau

insurance sector and healthcare/social assistance sector each grew by over 8 percent compounded annually. Participation in the labor force increased from 72 percent to 79 percent in this period. After reaching a peak of 82 percent in 2007, it began to decline, registering 74 percent in 2011, eight percentage points lower but still eight percentage points above the state average.

Utah's average participation rate was relatively flat from 1990 to 2008, around 72 percent. Its current rate of 66 percent is the lowest since 1980 and sizably worse than its stable rate of approximately 72 percent before 2008.

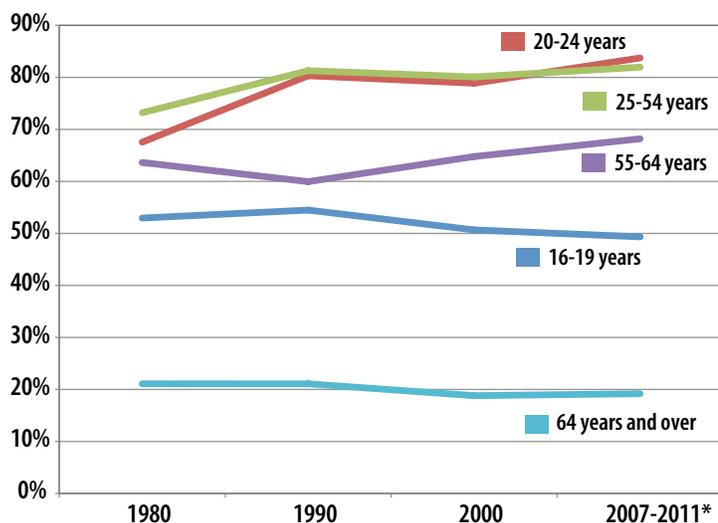
Women in the Labor Force

Historically, women's labor force participation rates have been increasing nationally (while men's have been decreasing), and this region's participation rates parallel that trend. Rich's participation rate for women was higher during 2007–2011, after 2000 ended at approximately the same level as 1990 (Figure 3). For Box Elder and Cache counties, levels were fairly stagnant after 2000, dropping slightly in both counties.

Given the sharp fluctuations in the participation rate after 2000 for Cache and Box Elder counties, it is surprising that women's participation rates did not fall more. Studying the sectors with high employment provides a clue into this phenomenon. Two dominant industries in Cache are education services and healthcare/social assistance, respectively comprising 18 percent and 10 percent of average employment from 2007 to 2011. These sectors, often referred to as "recession-proof" because of their improbability of suffering major recession-related declines, are typically more often staffed by women than by men.

Women employed in these sectors have a comparative advantage over men who are often employed in sectors that suffer during recessions. This advantage is also evident in Box Elder County, where education services and healthcare/social assistance sectors made up an average of 15 percent

Figure 4: Bear River Labor Force Participation Rate by Age



* 2007–2011 ACS five-year estimates
Source: U.S. Census Bureau



Explaining Labor Force Trends (continued)

of employment during 2007–2011. When other sectors like manufacturing and construction were diminishing, healthcare/social assistance grew 28 percent from 2007 to 2011. Women fared better than men during the losses of the recession because they constitute the majority of these recession-proof sectors, accounting for participation rates from 2007 to 2011 that are higher than would be expected.

Labor Force Participation Rates by Age

Changing rates of participation among different age groups reflect, among other things, demographic transformations regarding attachment to the labor force. Figure 4 illustrates the shifting labor force attachment by age groups for all Bear River counties. The 16- to 19-year-old category slopes downward, consistent with national participation rates. These young

workers have been increasingly delaying workforce entry in lieu of attaining higher education, accounting for the decreasing labor force participation rate. The declining rate since 2000 possibly reflects the higher unemployment rates that are typical for this age group.

Another distinct group is the baby boom generation, encapsulating those born between 1946 and 1964. By the year 1990, all baby boomers had aged into the prime age group of 25- to 54-year-olds. The movement is expressed with the spike in participation in 1990 for 25- to 54-year-olds, followed by an increase in 2000 by 55- to 64-year-olds.

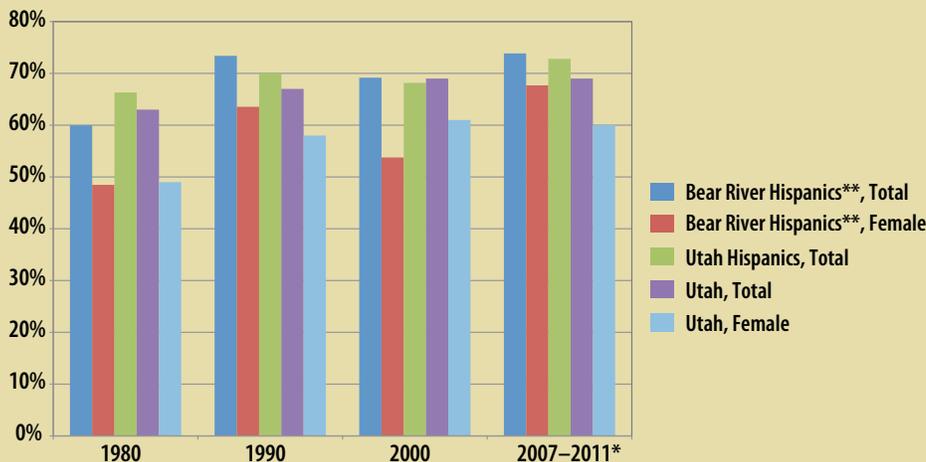
Hispanics in the Labor Force

Individuals of Hispanic ethnicity have played an increasingly prominent role in Utah's labor force and participate in the

labor force in distinct ways. Available data for Hispanics in the labor force is limited to counties with a sufficiently large population of Hispanics. In Northern Utah, that excludes Rich County. Thus, the labor force participation rates of Hispanics expressed in Figure 5 are limited to Box Elder and Cache counties. Beginning in 1990, the Hispanic labor force participation rate in Box Elder and Cache exceeded the Utah average Hispanic participation rate and the Utah average for all races and ethnicities. The same relationship persisted in 2000 and 2007–2011.

The participation rate for Hispanic females was nearly equivalent to or higher than the state average for females in most years except 2000, when a decline affected all of the Hispanic populations represented in Figure 5. By 2007–2011, however, most measures had returned to pre-2000 levels.

Figure 5: Hispanic Labor Force Participation Rate by Area



The labor force participation rate over time provides a framework for understanding the trends within a labor force, especially given the recent volatility of the northern Utah economy. Participation rates by gender, age and ethnicity illustrate a changing labor force.

* 2007–2011 five-year estimates
 ** Includes Box Elder and Cache counties only
 Source: U.S. Census Bureau

Economic Barometers for Bear River

BY NATALIE TOROSYAN, ECONOMIST

After several quarters of negative year-over employment change, the Bear River region showed positive gains by second quarter 2012. The turnaround comes just as the region's employment figures stabilized from the steep declines of the recession. Most of the increase is due to economic growth in Cache County. The average number of jobs in the past two years in the Bear River region has been about 67,000, considerably lower than peak pre-recession levels.

The year-over percent change in total nonfarm employment for the period September 2010 to September 2011 for almost all counties was negative. The exception was in Rich County, which gained 0.1 percent. During September 2011 to September 2012, all counties experienced growth in year-over total nonfarm employment change. The Bear River region averaged 1.9 percent. Cache County led the growth with a 2.1 percent year-over change, while Rich and Box Elder followed with 1.1 and 1.0 percent, respectively.

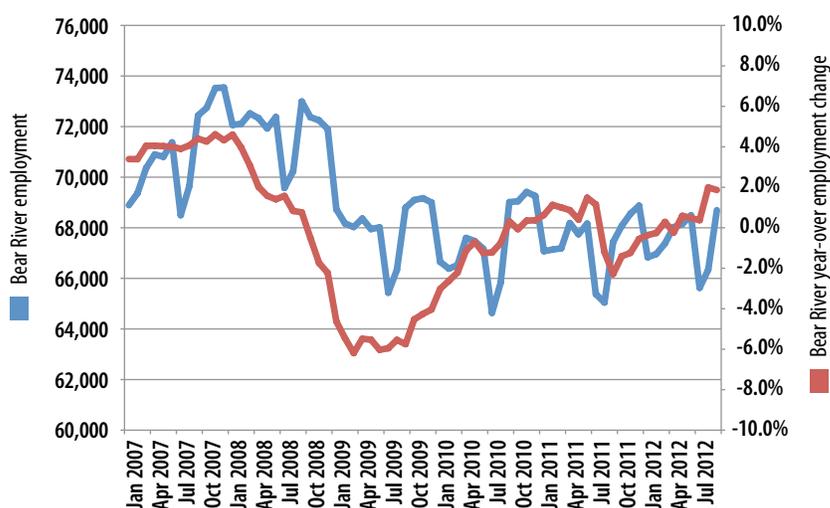
Box Elder

After falling to its lowest point in four years at 6.4 percent in October and November 2012, the unemployment rate in Box Elder grew slightly in the last month of 2012 to 6.5 percent, positioning itself above the other Bear River counties and the state average. The slight uptick ends a four-month stretch of declining unemployment rates that began in July. Compared to the December 2011 unemployment rate, December 2012 was five-tenths of a percentage point lower. Additionally, the annual average of 6.7 percent in 2012 was considerably lower than the 8.2 percent average of 2011.

Third quarter 2012 employment declined by about 100 jobs relative to the same period in the previous year, mostly in manufacturing and construction. By third quarter 2012, manufacturing had experienced 17 consecutive

The Bear River region showed positive gains by second quarter 2012 — this turnaround comes just as the region's employment figures stabilized from the steep declines of the recession.

Figure 6: Bear River Employment and Year-Over Employment Change, 2007–2012



Source: U.S. Bureau of Labor Statistics; Utah Department of Workforce Services



**Economic Barometers
for Bear River
(continued)**

quarters of year-over declining employment that began in mid-2008. To understand the degree to which manufacturing dampened employment growth in Box Elder, consider the fact that year-over changes in total employment for the county were negative until July 2012. If manufacturing were removed from Box Elder County's employment, the stretch of negative year-over changes in employment would have ended in June 2011, a full 13 months earlier, illustrating how markedly manufacturing affects the county's economy. Retail trade employment in the region has consistently struggled since January 2009, with only a few months of reprieve from negative year-over rates of change. The negative rates of change,

however, have become increasingly smaller and will likely soon grow positive.

In the past four years, gross taxable sales vacillated considerably, with few consecutive quarters of positive growth. After varying percent changes, gross taxable sales of third quarter 2012 were 6.0 percent higher compared to the same time in the previous year.

Construction activity has yet to rebound in Box Elder. New residential permit values were down 20.8 percent during the first ten months of 2012 compared to the same period in 2011. Similarly, new nonresidential permit values were lower by 32.1 in the first ten months of 2012 than in comparable months in 2011.

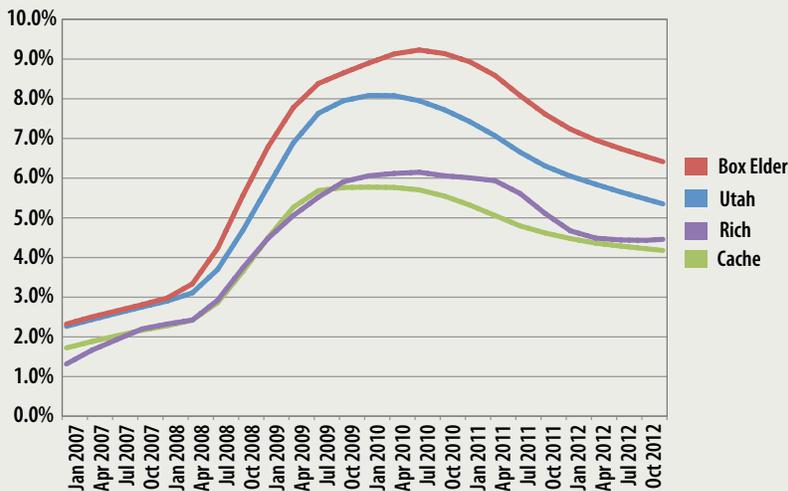
Cache

Cache ended 2012 with the lowest seasonally adjusted unemployment rate in Bear River at 4.3 percent, the fourth lowest of all Utah counties. This annual average was lower than 2011's 4.8 percent and 2010's 5.7 percent. Throughout the entire year of 2012, the unemployment rate did not exceed 4.5 percent, which can be attributed to Cache County's industrial composition that includes many "recession-proof" sectors, like education and healthcare.

Between September 2011 and September 2012, total nonfarm employment expanded by 2.1 percent, with large gains in public administration, educational services and professional/technical services. These sectors, collectively adding 902 new jobs, contributed 80.0 percent of the year-over employment change. Cache has been adding jobs at a steadier rate than the other Bear River counties. After 16 consecutive months of recessionary year-over employment contractions beginning in November 2008, the county reversed its trend and established an extended period of employment growth. In fact, except for three months of relatively small losses, total employment in Cache has been growing at positive rates since second quarter 2010.

Despite these positive indicators, employment growth was restrained by significant employment contractions that were recorded in administrative/waste services and retail trade. During eight out of the first nine months of 2012, the administrative/waste services sector registered no year-over employment growth. The sector began adding new

Figure 7: Seasonally Adjusted Unemployment Rates by County, 2007-2012



Source: U.S. Bureau of Labor Statistics; Utah Department of Workforce Services

post-recession jobs in January 2010, slightly before the area as a whole began adding jobs, but jobs were almost entirely declining beginning in July 2011. Retail trade has suffered numerous extended periods of job loss since the recession, including the latest stretch from April to September of 2012. Given the oscillating nature of the sector during 2012, year-over employment levels decreased by 2.2 percent by the end of September, finishing the month with 5,401 jobs.

Gross taxable sales in third quarter 2012 had grown 4.9 percent compared to third quarter 2011. During the first three quarters of 2012, that same figure grew 10.0 percent. Cache witnessed the strongest growth in sales in Bear River.

Year-over percent change in new residential permit values were -6.6 percent in October 2012. But from January to October of 2012, residential permit values had increased by 41.6 percent relative to comparable months in the previous year. New nonresidential permit values fell by 13.9 percent. New dwelling permits were issued at a 60.7 percent increase during the first ten months of 2012 compared to the same period in 2011.

Rich

Rich County ended 2012 with the second-lowest seasonally adjusted unemployment rate in the region at 4.5 percent in December, considerably lower than the state average of 5.4 percent. The county fared relatively well in 2012, with an average unemployment rate of 4.5 percent, and avoided exceeding 4.7 percent during the entire year. That rate marks a decline in the average annual unemployment rate, which was 5.6 percent in 2011.

However, in order to reach pre-recession unemployment rates, the county must shed another 2 to 3 percentage points off the current rate.

By September 2012, Rich was home to approximately 737 jobs, up 1.1 percent from September of the previous year. Given the highly seasonal nature of Rich's economy, employment typically peaks in July. Compared to July 2011, total nonfarm employment in July 2012 had grown by 3.4 percent, a sizeable improvement relative to the 3.7 percent decrease from July 2010 to July 2011.

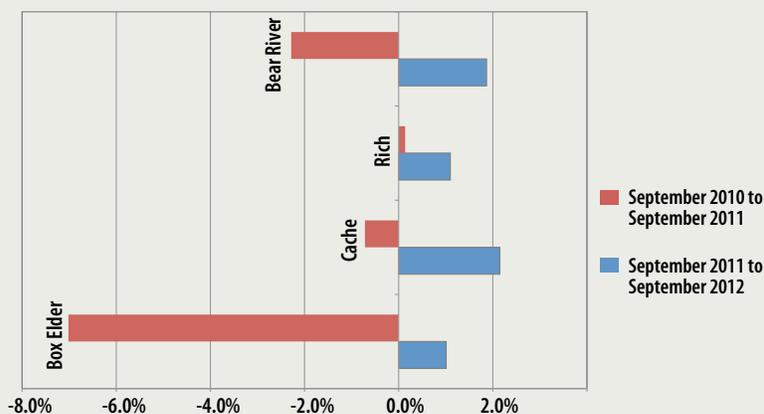
The largest percent changes in employment between September 2011 and September 2012 were in administrative/waste services, which registered 65.0 percent growth, and public administration, which grew at 16.0 percent. The steepest declines were in

real estate/rental/leasing, which shed 39.0 percent of employment, and retail trade, which lost 14.6 percent.

The county had faced extreme volatility with gross taxable sales in recent quarters. During the period between third quarter 2011 and third quarter 2012, sales grew by 11.6 percent. In contrast, the period between second quarter 2011 and second quarter 2012 saw an 85.5 percent drop. Gross taxable sales had plummeted so drastically that it gave room for 256.8 percent growth between the first and third quarters of 2012.

Rich is still struggling to recover home building but declines continue. From January to October of 2012, new residential permit values were 70.5 percent less than comparable months in 2011, and total construction was down 67.7 percent.

Figure 8: Year-Over Percent Change in Total Nonfarm Employment



Source: U.S. Bureau of Labor Statistics, Department of Workforce Services



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Initial Claims as an Economic Indicator

BY MELAUNI JENSEN, LMI ANALYST

The Unemployment Insurance Benefits program in Utah is administered by the Department of Workforce Services. This program was started to help safeguard the economy against short-term losses by aiding individuals who have lost their income because of a layoff. Through this program, DWS collects contributions, determines eligibility, takes claims and pays benefits to unemployed workers. When individuals find themselves out of work through no fault of their own or have their hours reduced, they can file what is called an initial claim, allowing them to become eligible for a minimum of 10 weeks and a maximum of 26 weeks of regular benefits. Not all claimants will use the entire time, as they may be able to find a new position with another industry or employer. To be eligible for these benefits, unemployed workers must meet certain criteria as defined by DWS, and an individual will not be eligible if they voluntarily leave their job. If a claimant has been deemed eligible, they will receive an amount based on their earnings over a recent 52-week period. Utah continues to update its UI program, making it easier for both claimants and employers, giving them the option to file and respond online.

When businesses lay off workers it causes the number of initial claims to rise — an indicator of a weakening economy. As the economy recovers and layoffs drop, so do initial claims. Mass layoffs, or establishments having 50 or more initial claims in a five-week period, are usually a contributing factor to a drastic increase, and the

Unemployment Insurance program helps identify those layoffs to ensure that workers qualify for UI benefits.

Analysts measure the level of initial claims to provide a leading indicator of labor market conditions in an attempt to gain insightful information about the economy. Initial claims data is released on a weekly basis. Some have questioned whether measuring initial claims in this way is a good indicator. Initial claims can increase when individuals are laid off or when the percentage of individuals who are eligible for, claim and receive UI benefits rises. This can make it more difficult to compare these levels over extended periods of time. Over the latest recession, the UI program expanded and allowed more workers to be eligible for benefits, making analysts take a harder look at those indicators.

In the beginning of 2007, Utah's economy was still thriving with just over 6,300 initial claims for January; but by the start of 2009 that number had risen to over 20,000 claimants. The labor force obviously suffers during recessions, and as we moved further into this latest, roughly 80,000 jobs were taken from Utah's workers, and UI claims continued to rise. In the past three years, initial claims have made a slow but steady descent with a 9,343 monthly average in 2010, just under 8,000 in 2011 and this most recent year behind us with barely over 7,000. In Utah, most economists and analysts agree that these and other indicators will continue to show this downward trend.