

local insights



An economic and labor market analysis of the Wasatch Front North Area

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Determinants of the Labor Force Participation Rate



BY JOHN KRANTZ, ECONOMIST

Factors that influence the labor force participation rate help us evaluate current economic conditions and predict future goods and services generated by the economy. Many economists criticize the unemployment rate as an inadequate measure of “slack” in the labor market, particularly after a recession. They prefer to look at the labor force participation rate as a better indicator of health. The goods and services produced by an economy are partly determined by the labor force, so predicting output depends on estimating the size of the future labor force. The Bureau of Labor Statistics (BLS) estimates that the

future labor force participation rate will be one of the essential inputs in their industry employment and occupational projections, used by many organizations to forecast state and national gross domestic product.

The Components of Labor Force Participation

The labor force, by county, state or nation, is the sum of the employed and the unemployed, or an individual who is out of work but actively seeking employment. The unemployment rate is the number of unemployed divided by this sum.

The unemployment rate receives a lot of press, but does it communicate enough

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Understanding the factors that shape the labor force participation rate can provide deeper insight into the current state of the economy and its future path.

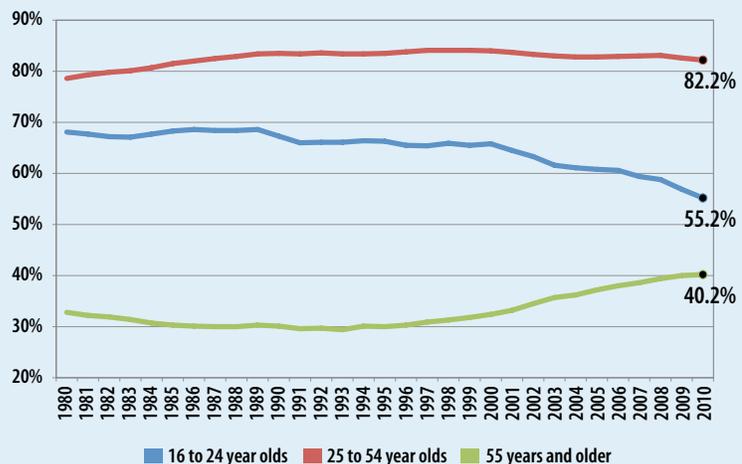
Steady Labor Market Improvement 5

Rapid employment growth in Davis County fueled a strong recovery throughout the Wasatch Front North, but the rate of job creation showed signs of slowing toward the end of 2012.

Initial Claims as an Economic Indicator 8

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

Figure 1: Labor Force Participation Rates by Age Groups, United States



Source: Bureau of Labor Statistics





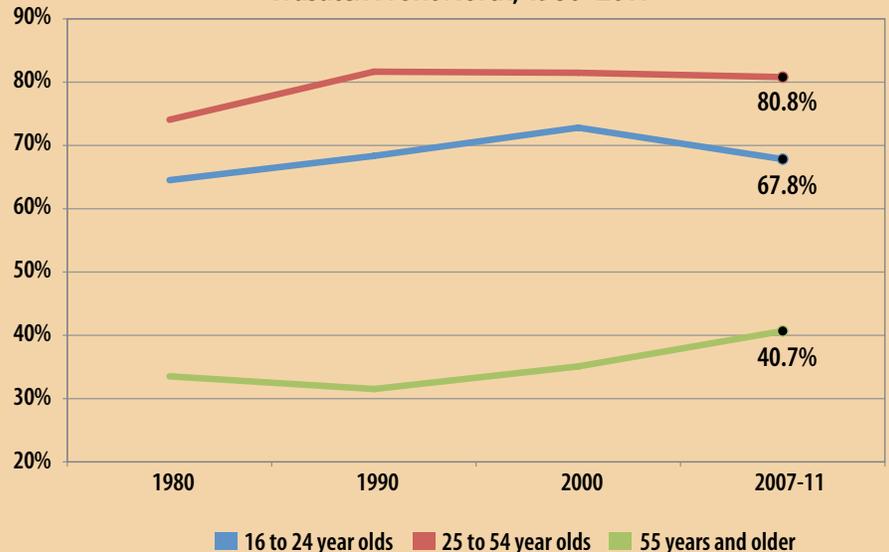
Determinants of the Labor Force Participation Rate (continued)

by itself to evaluate the health of the labor market and economy? In 2011, Utah had a total population of 2.8 million, a labor force of 1.3 million and a 6.7 percent average unemployment rate. If the labor force suddenly plummeted 99,000 employed and 1,000 unemployed while the population remained the same, the unemployment rate would drop down to only 1 percent. This would hardly represent a more favorable state of affairs than having a 6.7 percent unemployment rate and a labor force of 1.3 million individuals. The subsequent decline in economic output would force a large majority of the population into abject poverty. Changes in the unemployment rate alone are not enough to infer whether the economy has improved.

Economists find the labor force participation rate a better measure of economic health because it accounts for the working age population (16 and older). The labor force participation rate is the labor force divided by the working age population. By explicitly including the population in this measure, we can better evaluate the balance between generating goods and services (creating wealth) and being away from the labor market by attending school, raising children, retiring, etc.

The labor force participation rate can be viewed as the result of the size of various subgroups and their individual propensities to participate in the labor force. If we can predict the sizes of subgroups and their propensities to participate, then we can estimate the future size of the labor force. This is not as easy as it sounds because the propensity to participate has changed over time along

Figure 2: Labor Force Participation Rates by Age Groups, Wasatch Front North, 1980–2011



Source: U.S. Census Bureau, Decennial Censuses and American Community Survey Data Sets

many different demographic dimensions, particularly age, gender and ethnicity.

Participation by Age

In examining participation rates by age, the population is separated into three groups: young (16 to 24), prime (25 to 54) and older (55 and older). Nationally, the prime population has averaged a participation rate just over 82 percent for the last 40 years. The young population participates less in the labor market nationally. Many young people are seeking higher levels of education, moving from the labor force to student status. Also, many young people typically have the highest unemployment rates, which may result in a discouraged worker effect.

The participation rate among the older population fell up to the early 1990s, followed by a steady increase to just over 40 percent for several possible reasons. More individuals may not retire early if they are trying to keep their benefits until they are Medicare eligible, or they are hoping for a better retirement from defined-contribution plans rather than defined-pension plans (as many employers are moving that direction). As the official

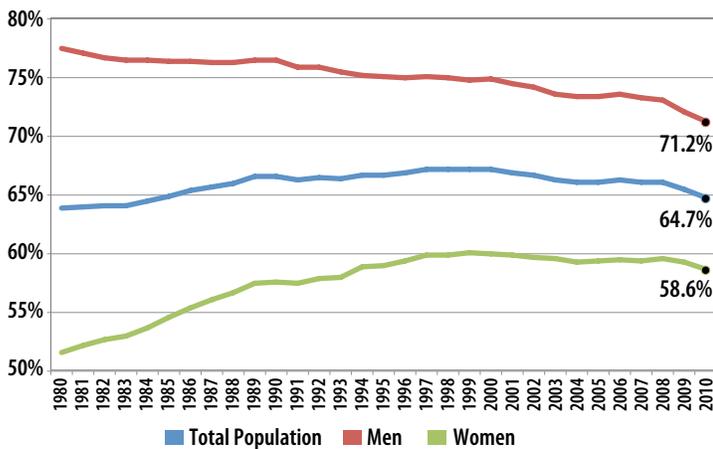
retirement age for collecting Social Security increases, participation by the older population may continue to trend up.

In Figures 1 and 2, the national participation rates by age are remarkably similar compared to Wasatch Front North. As the total participation rates for Davis (70.5 percent), Morgan (69.4 percent) and Weber Counties (68.2 percent) were all higher than the United States (64.7 percent), it is surprising that prime-age workers participate at a lower rate. However, while only 55.2 percent of individuals aged 16 to 24 participated nationally, 67.8 percent in this range participated along the Wasatch Front North. Given the large size of the young population, it was enough to push each county's participation rate above the national average.

Participation by Gender

Less than 33 percent of women aged 16 or older in the United States participated in the labor market in 1948. By 1999, 60 percent of working-age women were in the labor force. Over the subsequent decade, women continued to participate at a roughly constant rate of 60 percent. The Great

Figure 3: Labor Force Participation Rates by Gender United States, 1980–2010



Source: Bureau of Labor Statistics

Recession is likely responsible for the slight decline in recent years.

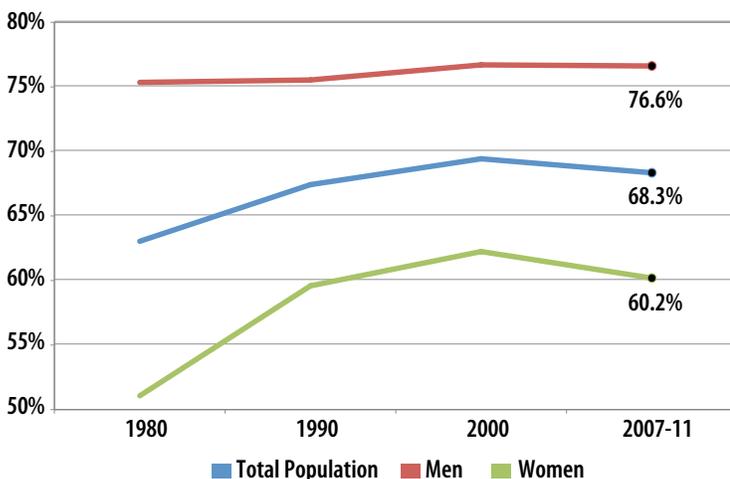
Why did the participation rate for women increase? As the emphasis in the economy has shifted from producing goods to services, women may have had a comparative advantage over men in terms of skills for these types of occupations. A more specifically “human capital” explanation points out that female educational attainment has increased over time. Both of these explanations are based on the idea that as firms offered higher wages, the opportunity cost of not working increased, thereby inducing women into the labor market. Even welfare reform has been cited as a factor due to its requirement that single women with children must eventually find work or forego their welfare benefits.

As women’s participation increased, men’s participation decreased. In 1948, the national participation rate for men was 86.8 percent. That rate has dropped to 70.2 percent as of 2012. A general decrease in the demand for less-skilled workers could be responsible for slowly pushing low-skilled male workers out of the labor force. Economists have also noted that the tendency for men to leave the labor market completely instead of seeking a new job during recessionary periods has increased over time.

Compare national participation rates by gender to the Wasatch Front North in Figures 3 and 4. While the trends show similar patterns, it is clear that both men and women along the Wasatch Front North participate at higher rates. The most distinctive feature for the Wasatch Front North region is that the participation rate for men has increased over the last 40 years.

Will the labor force participation rate for women continue to increase or has it reached its peak? Economists have claimed that recoveries from recessions occurred much more rapidly in the past because economic growth was fueled by an ever-growing proportion of women joining the labor force. The very slow, drawn-out recoveries from the 2001 recession and the Great Recession are believed by some to be consequences of the fact that the participation rate for women has been relatively constant since 1999.

Figure 4: Labor Force Participation Rates by Gender, Wasatch Front North, 1980–2011



Sources: U.S. Census Bureau, Decennial Censuses and American Community Survey Data Sets



Determinants of the Labor Force Participation Rate (continued)

Participation by Ethnicity

While the participation rate for Hispanics did not differ significantly from the general population before 2000, they participated at a rate of 2.5 percentage points higher than the total population from 2000 to the present.

Figure 5 compares the participation rates for Hispanics and white alone, non-Hispanics. These estimates, taken from the American Community Survey (ACS) five-year estimates for 2007 to 2011, show an even greater difference between Hispanics and non-Hispanic whites than is suggested by the national data. Statewide, the Hispanic participation rate is 4.5 percentage points higher than that of non-Hispanic whites. Even more impressive is Weber County's 6.5 percentage-point difference.

Hispanics in Utah are a younger population than the non-Hispanic white population. Based on 2011 ACS data for the State of Utah, the Hispanic population has a median age of 23.5 whereas the white alone, non-Hispanic population has a median age of 30.9. These numbers suggest that a larger percentage of Hispanics are in their prime working age than non-Hispanic whites. Another potential explanatory factor is that median household income for Hispanics is only \$41,802, compared to \$58,495 for non-Hispanic white households (2011 ACS). The lower median household income could lead more household members within Hispanic households to participate in the labor market to improve their economic situation.

The Future Level of Participation

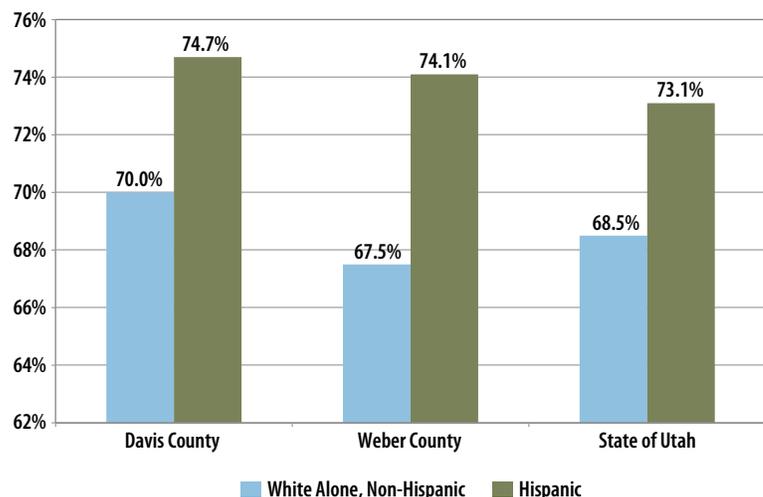
As it is well known, Utah and the Wasatch Front North have large populations that are 15 and younger. Does this imply that

the labor force participation rate will increase in the future? Not necessarily. The participation rates among subgroups have been changing over time and it is important to understand not only the size of a particular subgroup, but also the trend in its participation rate. With the continually greater emphasis on earning a college degree and even a post-graduate degree, the participation rate of young workers may continue to fall. If the economy produces primarily low paying jobs, fewer people may be induced to participate. What about the long-term unemployed from the Great Recession? Many of these individuals may permanently exit the labor force, as firms will be reluctant to hire them. A growing Hispanic population may boost labor force participation. Increases in the official

retirement age for Social Security may keep older workers for a few more years. And women in Utah may close the bachelor's degree education gap between men and women, leading to higher participation among women.

As these various counterfactual situations suggest, predicting the labor force participation rate is difficult. The only forecast offered here is a national level forecast produced by the BLS. Based on a rate of 64.7 percent in 2010, the BLS predicts the labor force participation rate will decline to 62.5 in 2020.

Figure 5: Labor Force Participation Rates by Ethnicity, 2007-2011



Source: U.S. Census Bureau, American Community Survey



Employment Growing, But the Pace Slows

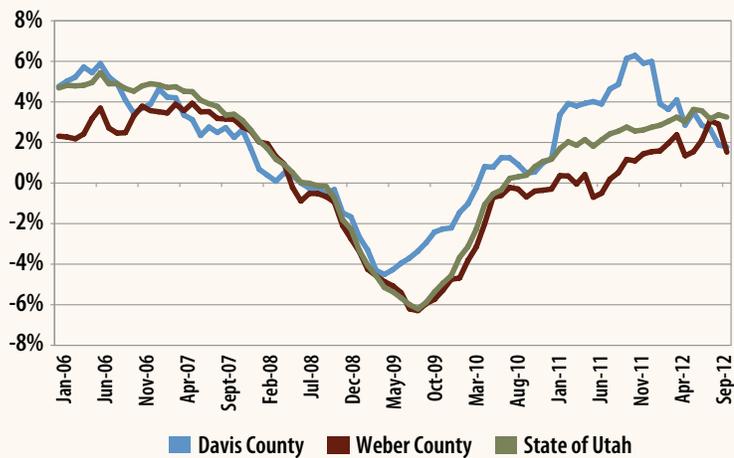
BY JOHN KRANTZ, ECONOMIST

Employment in the Wasatch Front North economic service area (ESA) continues to improve, but the rate of expansion slowed in the second and third quarters of 2012. As shown in Figure 6, Davis County was creating jobs rapidly through 2011 at a pace better than the state average. Even though Weber County's employment was growing at a considerably slower rate, employment in the ESA grew by an average of 2.7 percent in 2011. Growth reached a peak of 3.2 percent in March 2012, but has been declining since.

Perhaps the slowdown in Davis County's employment growth should be expected considering how quickly the county recovered from the Great Recession. Statewide employment in the third quarter of 2012 nearly reached the peak level of employment achieved just before the recession began. In contrast, Davis County returned to its pre-recessionary employment peak by April of 2011 and added jobs at a fast pace for a full year afterward. Weber County has shown much slower employment growth and is still roughly 4,500 jobs below the pre-recessionary employment peak. Predicting the future trend of Weber County's employment growth rate is difficult, but given the slack in the labor market, the rate could increase significantly and rapidly with an increase in economic activity.

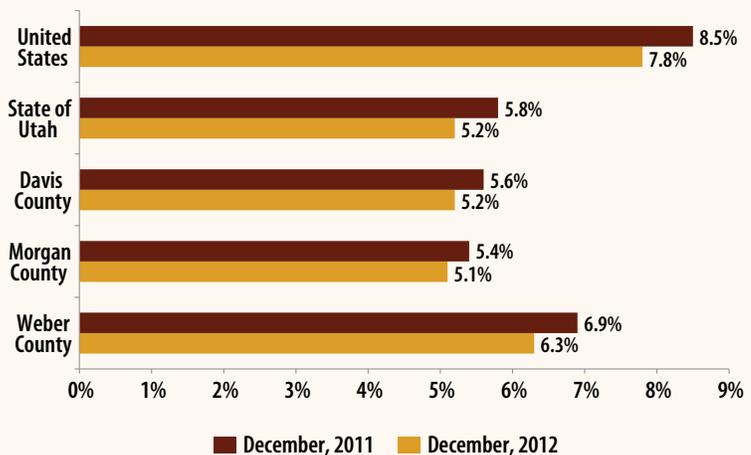
Even with the noted slowdown, employment in the Wasatch Front North was 2.2 percent higher in the third quarter of 2012 relative to the previous year. The two largest increases were in the administrative/support and waste management/remediation services sector (NAICS 56) and the health care and social assistance sector (NAICS 62), both of which added more than 700 jobs over the year.

Figure 6: Comparison of Over-the-Year Employment Growth Rates



Source: Department of Workforce Services

Figure 7: Comparison of Unemployment Rates



Sources: Bureau of Labor Statistics; Department of Workforce Services

Employment Growing, But the Pace Slows (continued)

The manufacturing (NAICS 31, 32 and 33) and retail trade (NAICS 44 and 45) sectors are also showing strong numerical employment growth, with the sectors adding more than 500 jobs each.

Only three sectors in the ESA exhibited over-the-year job losses. Wholesale trade (NAICS 42) declined by 153 jobs, while the real estate and rental and leasing sector (NAICS 53) contracted by 40 jobs. Another sector with significant job losses was public administration (NAICS 92), which shrank by 135 jobs.

Davis County

In the third quarter of 2012, over-the-year employment grew by 2,250 jobs. Five sectors accounted for over 93 percent of these new jobs. The administrative/support and waste management/remediation services sector and the arts, entertainment and recreation sector (NAICS 71) grew by over 9 percent, adding 460 and 381 jobs, respectively. The health care and social assistance sector along with the manufacturing sector rose by roughly 350 jobs each. The largest jobs gains, however, were in retail trade, which expanded by 558 jobs.

The expansion of economic activity is manifest in the strong increase in taxable sales. Davis County's taxable sales grew at approximately 6.0 percent on average from the beginning of 2011 through September 2012. Taxable sales among retail establishments grew by 6.5 percent, consistent with the growth in retail trade employment.

Construction activity is often measured using two primary data sources: wage and salary construction employment and construction permit data. Currently, these two sources of data are conveying very different messages. At a statewide level, the year-to-date value of total construction permits through July of 2012 was down 8.6

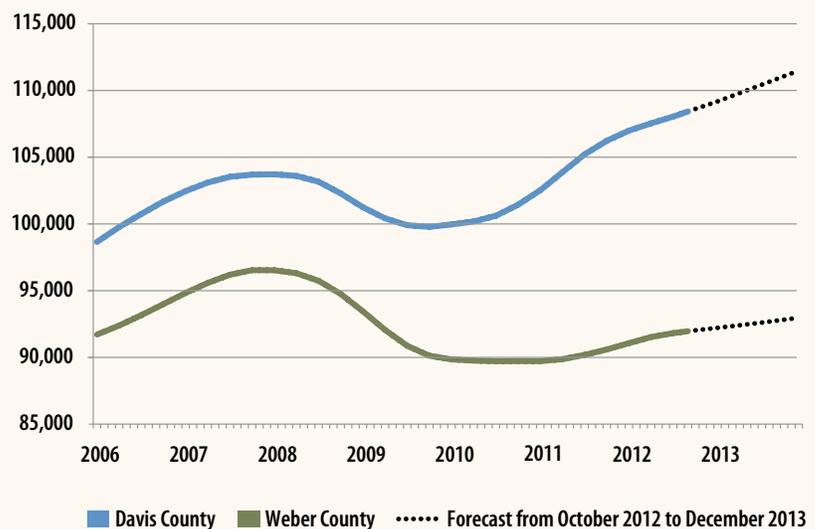
percent from the previous year. However, statewide construction employment was up 4.5 percent in July 2012 relative to the year before. The construction permit data for Davis County is promising, with total construction permit values up 7.8 percent year-to-date through July. This figure is driven by the residential side of the construction industry, with the number of dwelling units up 36.6 percent and new residential permit values up by 35.4 percent. These numbers are even more impressive considering that non-residential construction values were down by 42.6 percent. The difference in the economic signals communicated by permit and employment data is also noticeable in Davis County. While the permit data suggests a large measure of construction activity, construction employment was only 1.6 percent higher in the third quarter of 2012 relative to the previous year.

Weber County

The third quarter of 2012 was the best quarter for employment growth in Weber County since the onset of the Great Recession. The over-the-year employment growth was a healthy 2.5 percent, which produced 2,250 new jobs. Nearly every sector showed positive employment growth, but five sectors were responsible for roughly two thirds of the new jobs. The accommodation and food services sector (NAICS 72) and the construction sector added approximately 280 jobs each. The manufacturing sector and the administrative/support and waste management/remediation services sector expanded by 227 and 259 jobs, respectively. The largest number of new jobs was created in the health care and social assistance sector, which generated 435 jobs.

Similar to Davis County, taxable sales have been growing steadily since the beginning of

Figure 8: Seasonally Adjusted Employment Forecasts



Source: Department of Workforce Services

2011. As of the third quarter of 2012, taxable sales were up 5.1 percent compared to the previous year.

Regarding construction activity, Weber County provides another good example of how permit and employment data can send mixed signals. As of July 2012, the year-to-date value of total construction permits was down 26.3 percent. Yet, construction employment grew by 5.8 percent over the year through September. On the basis of the employment data, construction appears to be showing signs of recovery.

Morgan County

The quarterly census of employment and wages (QCEW) data is generally viewed as the most accurate employment data available. Yet, even the best data is sometimes subject to revision. The Morgan County employment data underwent several revisions that make it appear as though total nonfarm employment declined 2.3 percent in the third quarter of 2012. After taking account of these revisions, it was found that employment in Morgan County grew by approximately 45 jobs, an over-the-year increase of 2.6 percent. In the subsequent discussion of Morgan County's industry employment, the numbers and percentages have been adjusted to reflect real changes in the county's economy instead of non-economic revisions of the data.

Three industries were responsible for most of the over-the-year employment growth. The construction industry created roughly 20 more jobs in September 2012 compared to one year ago. The health care and social assistance sector and the accommodations and food services sector (NAICS 72) added about 20 jobs each. The largest contraction occurred in the retail trade sector, where the number of jobs declined by 18. For all other sectors, employment changes were less than 10 jobs lost or added.

Another indicator that suggests Morgan County's economy is improving is taxable sales. The official data shows an over-the-year decline of one percent for the third quarter of 2012. This is another case where adjusting the data can give a better picture of the true economic activity occurring in the county. Taxable sales in the third quarter of 2011 spiked up to the second highest level in the last eight years, making the third quarter 2012 level appear as a decline. Seasonally adjusting the data corrects for this anomaly and produces a better estimate of the trend. After seasonal adjustment, taxable sales were revealed to have grown by roughly 9.4 percent over the last year, which suggests growing economic activity in the county.

Outlook

When the employment data for the fourth quarter of 2012 is collected and finalized, employment growth in Wasatch Front North should range between 2.3 and 2.4 percent as an annual average for 2012 compared to 2011. However, based on the recent slowdown in employment growth rates, the employment forecasts based on the most current data for Davis and Weber counties are less than robust.

As revealed in Figure 6, Davis County reached a peak level of 6.3 percent employment growth in October 2011. Over the subsequent year, the employment growth rate trended steadily downward, falling to 1.7 percent in September 2012. Although, the employment growth rate in Weber County dropped to 1.5 percent at the end of the third quarter of 2012, the future direction of the growth rate trend is less clear. Nevertheless, on the basis of the current trends, the most optimistic forecasts have Davis County employment growing by 2.2 percent in 2013 and Weber County growing by just 1.0 percent (see Figure 8).

Combining the forecasts, Wasatch Front North is expected to grow by an annual rate of 1.6 percent in 2013.

If employment statewide continues to grow at the current level of just over 3 percent, the economic activity driving this demand for labor could potentially spur greater economic activity in Wasatch Front North and stimulate employment. Nationally, the demand for labor appears relatively weak, with employment growth seemingly stuck at roughly 1.7 percent annually. Consequently, if future employment growth in Wasatch Front North is to outperform the forecasts in Figure 8, the economic stimulus to labor demand might need to be found within the state of Utah rather than beyond its borders.

Even with the noted slowdown, employment in this region was 2.2 percent higher in the third quarter of 2012 relative to the previous year. The two largest increases were in the administrative/waste management sector and the health care and social assistance sector.



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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.