

State of the State 2016



Seven years after the end of the recession, Minnesota's economy continues to improve and, by many measures, ranks among the best in the country. Some challenges are on the horizon, however.

As we do in every June edition of Trends, this issue contains a series of articles reviewing Minnesota's recent labor market performance. These articles make clear that our economy has improved and left the damages of the Great Recession further behind.

June is the seventh anniversary of the start of the current expansion, which includes four

years that were spent simply regaining the 159,300 jobs lost during the 18-month-long recession. As of May's preliminary employment estimate, Minnesota's economy has now added 108,100 jobs above and beyond the peak of early 2008.

The post-recessionary improvement in our unemployment rate appears to

reveal a less robust recovery. Since peaking at 8.1 percent in June 2009, the unemployment rate took until August 2014 to regain the pre-recessionary low of 3.8 percent. This rate then fell further to 3.6 percent, where it stood throughout most of 2015 before edging back up to its current rate of 3.8 percent. In other words, we have seen nearly 64,000 additional jobs but little improvement in our



unemployment rate for going on two years.

Part of the explanation for our lack of continued improvement in this regard lies in our persistent racial disparities, a topic covered in this and other issues of Trends. But digging into the data underlying these unemployment figures tells an additional story: Relative to other states, we have recently regained our previous status as the state with the nation's hardest-working population!

Between June 1990 and October 2004, Minnesota had a spectacular run of over

14 years as the state with the highest labor force participation rate. This and a relatively low unemployment rate combined to produce an equally amazing 13-plus-year run (March 1990 to June 2003) as the state with the highest share of our working-age population (16 years and older) employed, the so-called employment-to-population ratio.

With the onset of the Great Recession, this standing began to fade. Our labor force participation fell to sixth-highest and employment-to-population dropped to eighth by the time the recession officially began in December 2007. Slowly but

surely, though, we have seen gradual improvements in rank since. As of November 2015, we once again achieved top ranking in labor force participation, followed this past March with the highest employment-to-population ratio. Considering it has been 13 years since we had the top rank by both these measures, this is a significant indicator of the relative strength of our state's current economic climate.

Granted, a good share of our improved ranking comes not from increased rates of participation and employment here, but through declines

occurring elsewhere. The four states with participation rates above ours in April 2008 (Iowa, Nebraska, North Dakota and South Dakota) have all seen a 2.9 percentage point reduction in their rate, with the exception of South Dakota, where the decline was 3.4 points. Our rate fell only 1.6 points.

In addition to those four states, Kansas and Wyoming also exceeded us in employment-to-population in April 2008. Their employment rates, however, have fallen 1.6 and 5.1 points,

respectively, while ours has increased 1.5 percentage points over the same span. Those other four states that outranked us have also seen their employment ratios slip, between 0.8 and 2.1 points, allowing us to surpass them as well.

So back to that stubborn unemployment rate of ours. While the lack of improvement by that measure might suggest a stagnating recovery, we have seen a distinct improvement and a return to our previous No. 1 ranking in two other very

important indicators. As a share of our working-age population, more Minnesotans are in the workforce and working than in any other state.

This raises two related questions that will deserve our attention in the months and years ahead. One is whether the tight market conditions suggested by our high participation and employment rates may explain why our job growth has been lagging the nation and most other states over the last two years. Have we started to experience the constraints imposed by a shortage of additional workers well ahead of many other states? And the other question is whether this constraint will only tighten further and lead to even slower job growth in the coming years. With nation-leading participation, do we have less room to maneuver through the coming worker shortage than other states?

Employment and Unemployment

While the state's unemployment rate has been largely stable since mid-2014, the labor force grew by 83,316 people during that period. Meanwhile, the increase in the labor force participation rate, from 70.1 percent to 71.2 percent, suggests that 32,849 Minnesotans who had been nonparticipants either started working or started looking for work. The other 50,000-plus

TABLE 1

Employment Growth by Selected Industry Since August 2014, Seasonally Adjusted

	August 2014	April 2016	Percent Change
Total Nonfarm	2,824,900	2,891,800	2.4
Mining and Logging	7,200	6,100	-15.3
Construction	108,900	122,400	12.4
Manufacturing	313,500	318,800	1.7
Wholesale Trade	132,000	129,900	-1.6
Retail Trade	289,400	299,400	3.5
Transportation, Warehousing and Utilities	96,500	99,900	3.5
Information	52,500	49,700	-5.3
Financial Activities	178,500	184,500	3.4
Professional and Business Services	354,700	362,300	2.1
Educational Services	65,500	70,000	6.9
Health Care and Social Assistance	434,900	453,300	4.2
Leisure and Hospitality	255,700	261,500	2.3
Other Services (Private Only)	113,100	114,800	1.5
Government	422,500	419,200	-0.8

Source: Current Employment Statistics (CES)

people came from population growth, including new residents or people turning 16 and newly eligible to work.

There is further evidence that people chose to return to the labor market or enter it for the first time over this period. During the recession and the early part of the recovery, people remained unemployed for longer periods. Until recently, however, all groups of unemployed by duration have been declining since 2011. Starting at the end of 2014, or shortly after the unemployment rate leveled off, one group has been increasing dramatically – people unemployed for fewer than five weeks. This suggests that people are quitting jobs that are undesirable and finding new jobs relatively quickly.

Employment growth has not occurred evenly across industries. While most industries saw declines during the recession, some of those declines were small and returned to a normal pattern fairly quickly. Other industries lost jobs precipitously before bouncing back quickly. Others have only recently returned to pre-recession employment levels.

In Table 1, employment growth is displayed for the period since unemployment leveled off. A decline does not mean employment in the industry hasn't recovered since the



recession, only that growth has stalled since August 2014.

The largest percentage growth in the period since the unemployment rate hit 3.8 percent occurred in construction and educational services, while the largest numeric growth was in health care and social assistance. While the data do not show what kinds of jobs were created, these three industries have many well-paying occupations that might incent people to return to the labor market.

The largest percentage decline was in mining and logging. Because that sector is the smallest industry in terms of employment in Minnesota, the

numeric decline was only 1,100. While other industries saw small declines, employment generally has been growing.

Labor market indicators are increasingly painting a more positive employment picture. In the past year employment has increased while the duration of unemployment has decreased. Labor force participation has increased and workers appear to have more confidence in the availability of jobs.

Job Vacancies in Minnesota

Job vacancies in Minnesota support the picture of a strong labor market with extensive job opportunity. Both second

and fourth quarter 2015 results showed the most unfilled jobs since 2001, with more than 96,000 vacancies during each of the two quarters.

By fourth quarter 2015, the ratio of job seekers to job vacancies statewide had dropped to 1-to-1, or one unemployed worker for each vacancy. This ratio has fallen from 8.2 unemployed workers for each job vacancy during fourth quarter 2009. Regionally, the Twin Cities now has less than one (0.8) unemployed person for every job vacancy, while Greater Minnesota has 1.2 unemployed people for each job vacancy.

Statewide, health care and social assistance had the most

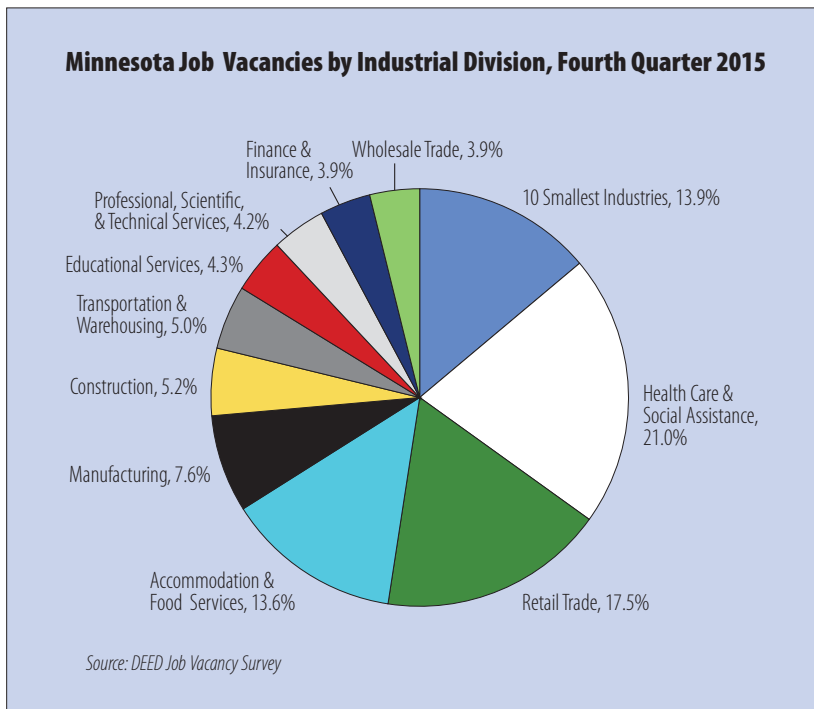
job vacancies, followed by retail trade, accommodation and food service, and manufacturing during fourth quarter 2015 (see Figure 1).

Median wage offers for all job vacancies were up 1.9 percent from a year ago to \$13.54 an hour. That increase was driven by higher wage offers for vacancies requiring low skills levels during fourth quarter 2015. The study showed that median wages were up over the year for the very large group of vacancies requiring a high school diploma or less (62 percent of all vacancies in Minnesota) and for those requiring an advanced degree (3 percent of all vacancies). Median wages were down for

all other groups (35 percent of all vacancies) (see Table 2). At the same time, the share of vacancies requiring a high school diploma or less increased 11.9 percent over the year while the share requiring post-secondary education increased only 2 percent. Increases in median wage offers at the low end of the wage scale can be attributed partly to increases in Minnesota's minimum wage in 2014 and 2015, as well as a tighter labor market that is forcing employers to compete for workers, particularly in low-wage occupations.

The following are some examples of median wage offers for low-wage occupations during fourth quarter 2015:

FIGURE 1



- Median wage offers for retail sales workers rose 17.8 percent from the previous year to \$10 per hour.
- Median wage offers for cooks and food prep workers rose 10 percent from the previous year to \$10.59 per hour.
- Median wage offers for personal care aides rose 13.4 percent over the year to \$11.49 per hour.
- Median wage offers for home health aides rose 13.9 percent over the year to \$11.38 per hour.

TABLE 2

Median Wage Offers for Minnesota Job Vacancies

Educational Requirements	Number of Job Vacancies			Median Wage Offer	
	Q4 - 2014	Q4 - 2015	Change	Q4 - 2014	Q4 - 2015
None	26,251	20,309	-22.6	\$9.93	\$10.00
High School	28,560	41,006	43.6	\$11.94	\$12.22
Vocational training	10,822	9,563	-11.6	\$15.00	\$14.98
Associate Degree	6,724	6,923	3.0	\$19.48	\$18.61
Bachelor's Degree	13,810	15,138	9.6	\$28.44	\$27.03
Advanced Degree	2,758	3,174	15.1	\$31.38	\$42.61
Total	88,927	96,114	8.1	\$13.29	\$13.54

Source: DEED Job Vacancy Survey

Employment Projections to 2024

Minnesota's job growth over the next 10 years will slow as employers struggle to find workers in a tight labor market. Annual average job growth will drop from 30,000 jobs between 2010 and 2015 to an expected 13,000 new jobs on average annually between 2014 and 2024. Most of the projected 130,000 new jobs will be added in the first five years of that 10-year period.

Robust job growth over the last five years was driven partly by unemployed workers moving into jobs. Minnesota's unemployment rate dipped to 3.7 percent in 2015 from a 26-year high of 7.8 percent in 2009. Last year's unemployment rate was tied for the fifth-lowest since 1976, the year

that consistent unemployment estimates were first developed.

Without significant increases in labor force participation rates or worker immigration into Minnesota, the state's unemployment rate soon will match and then slip below the boom years of the late 1990s, when unemployment averaged 3 percent between 1997 and 2000. During that period, Minnesota added an average of 53,000 jobs a year. The peak labor force participation rate in 2000 corresponded predictably with baby boomers moving into their 40s and 50s, the ages for peak labor force participation.

The oldest baby boomers (those born in 1946) and the youngest baby boomers (those born in 1964) will be 78 and 60 years old, respectively, in 2024. That

means that in 10 years most baby boomers already will be enjoying their retirement years, while the youngest soon will be retiring.

In 2015, labor force participation did increase for the first time since 2000, as the tight labor market drew some discouraged workers back into the workforce. As unemployment continues to fall and the labor market tightens, the labor force participation rate may continue to creep up for a few years before the retirement of the bulk of the baby boomers sends labor force participation rates downward again.

Minnesota's job growth over the next decade will be generated entirely in the private sector, with the expected small increase in state and local government employment offset

by a projected downsizing of federal government workers in Minnesota (see Table 3).

All private employment expansion will be in the service-providing sector, with the state's goods-producing sector workforce expected to shrink 1.3 percent. Expanded construction employment will be offset by declining manufacturing and natural resources and mining employment over the next 10 years.

Nearly three-fourth of all

employment expansion is anticipated to occur in two super sectors: educational and health services (77,600 jobs) and professional and business services (19,000 jobs). Educational and health services jobs will grow the fastest, increasing 16 percent by 2024, or nearly four times faster than the 4.3 percent increase projected for all employment.

Table 4 shows that three of the 22 major occupational groups are expected to lose jobs between 2014 and 2024: farming, fishing and forestry (5

percent decline), production (2 percent decline) and office and administrative support (1 percent decline). Health care support occupations will grow the fastest, with employment expected to jump by 17.6 percent. Personal care and service occupations (21,800 new jobs) and health care practitioners and technical occupations (20,100 new jobs) will add the most jobs over the next decade.

In addition to the 130,000 job openings projected to be created through employment growth

TABLE 3

Minnesota Industrial Employment Projections

	Estimated 2014	Projected 2024	2014-2024 Numeric Change	2014-2024 Percent Change
Total Employment	3,007,000	3,137,000	130,000	4.3
Self-Employed	196,800	201,300	4,500	2.3
Goods-Producing Sector	449,500	443,800	-5,700	-1.3
Natural Resources and Mining	29,900	28,400	-1,500	-5.0
Construction	107,600	117,900	10,300	9.6
Manufacturing	312,000	297,500	-14,500	-4.6
Private Service-Providing Sector	1,980,900	2,113,400	132,500	6.7
Trade, Transportation and Utilities	516,500	530,000	13,400	2.6
Information	52,500	48,900	-3,700	-6.9
Financial Activities	177,400	187,700	10,300	5.8
Professional and Business Services	353,400	372,300	19,000	5.3
Education and Health Services	485,800	563,500	77,600	16.0
Leisure and Hospitality	267,300	280,700	13,400	5.0
Other Services (Except Government)	128,000	130,300	2,300	1.8
Government	379,800	378,600	-1,200	-0.3

Source: Minnesota Employment Projections, 2014 to 2024

TABLE 4

Minnesota Occupational Employment Projections

	Estimated 2014	Projected 2024	2014-2024 Numeric Change	2014-2024 Percent Change
Total Employment	3,007,000	3,137,000	130,000	4.3
Management	228,500	233,600	5,100	2.2
Business and Financial Operations	170,500	180,000	9,600	5.6
Computer and Mathematical	93,500	101,300	7,800	8.3
Architecture and Engineering	52,300	52,600	300	0.6
Life, Physical and Social Science	26,000	27,300	1,400	5.0
Community and Social Services	59,900	65,400	5,500	9.2
Legal	21,100	22,100	1,000	4.7
Education, Training and Library	164,200	168,200	4,000	2.4
Arts, Design, Entertainment, Sports and Media	54,300	55,100	800	1.5
Health Care Practitioners and Technical	163,600	183,800	20,100	12.3
Health Care Support	91,500	107,600	16,100	17.6
Protective Service	47,800	49,000	1,200	2.5
Food Preparation and Serving Related	231,500	243,300	11,800	5.1
Building and Grounds Cleaning and Maintenance	99,200	103,900	4,700	4.7
Personal Care and Service	157,800	179,600	21,800	13.8
Sales and Related	289,100	299,900	10,800	3.7
Office and Administrative Support	425,400	421,300	-4,000	-1.0
Farming, Fishing and Forestry	16,000	15,200	-800	-5.0
Construction and Extraction	111,900	120,600	8,700	7.8
Installation, Maintenance and Repair	102,900	107,500	4,600	4.5
Production	223,600	219,000	-4,600	-2.1
Transportation and Material Moving	176,500	180,600	4,200	2.3

Source: Minnesota Employment Projections, 2014 to 2024

over the next 10 years, 697,000 net replacement openings are projected over that period. Even occupations that are expected to shrink over the next 10 years will have net replacement openings. Of 810 occupations, 94 percent are expected to have more job openings created by replacement openings than from employment growth. The need to fill replacement openings will increase through the decade as baby boomers retire.

Cost of Living

The annual cost of living for an average Minnesota family of three is \$45,864. That estimate, from DEED's Cost of Living study, is based on seven cost categories: food, housing, health care, transportation, child care, other necessities and net taxes.

The average annual wage per worker in the state is \$48,733,

meaning the average family in the state (assuming one working adult in the family) is making 106 percent of the cost of basic needs.

Data show, however, that the average annual wage in Minnesota can differ considerably from one race or ethnic community to another.

The average annual wage for white non-Hispanic workers (the majority population in Minnesota) is \$50,200 or 109 percent of the cost of living. But a closer look at just minority populations shows that their average wage is \$36,524 or 80 percent of the cost of basic needs.

Breaking out specific populations among minority workers in Minnesota, the highest wage is Asian at \$49,028 (107 percent of basic needs), followed by white Hispanic at \$34,042 (74

percent), American Indian at \$31,171 (68 percent) and black or African American at \$30,116 (66 percent).

The ability of people to meet basic family needs through employment income is crucial to the well-being of every community. These figures indicate many families of color are struggling to meet their everyday cost of living in Minnesota.

Conclusion

Although we lead the nation on a number of significant indicators, Minnesota's labor market faces important challenges. We must continue efforts to attract and retain workers if we want to maintain employment growth, fill the growing number of vacancies and continue to have a dynamic economy. An important part of this is removing barriers that many within Minnesota face to fully participating in the labor market. Efforts also must be made to ensure that Minnesota is an attractive destination for individuals to move who are looking to start or continue their careers. **T**

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