fall 2012 southeast

localinsights

An economic and labor market analysis of the Southeast Utah Area

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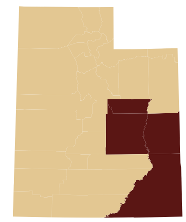
Characteristics of Unemployment Insurance Claimants



BY ERIC MARTINSON, ECONOMIST

DWS' mission statement reads, "We strengthen Utah's economy by supporting the economic stability and quality of our workforce." One of the most important means of supporting the economic stability of Utah's workforce occurs via the Unemployment Insurance program, a benefit implemented during the heights of the Great Depression under the provision of the Social Security Act of 1935. The purpose of Unemployment Insurance is to provide a temporary source of income for qualified workers who are unemployed through no fault of their own and who are looking for full-time work, in approved training or awaiting recall to employment. The funds are collected by employers via unemployment insurance taxes. In the aftermath of the greatest recession since the Great Depression, an analysis of Unemployment Insurance as pertains to local regions in Utah can provide valuable insight to the characteristics of those claiming UI benefits. Specifically, the proposed analysis can provide a better understanding of what the dynamics are between UI benefit claimants and re-employment. What follows are the details of such an analysis performed for Utah's Castle Country and Southeast Economic Service Areas.

The Data

The process used to gather the requisite information regarding UI recipients was challenging for a plethora of reasons that need not be mentioned here. Suffice it to say, certain conditions had to be imposed on the data intended for examination. First, we decided to make incision points at the beginning of 2009 and at the end of 2010, allowing for enough time to study any re-employment patterns. Recipients included in this examination had to have filed their initial UI claim within this window of time. Another condition was to make the reasonable assumption that an individual is considered to have ended an episode on UI at a point in time if he or she stops collecting payments for one quarter (13 weeks) after this point in time.

Those still collecting UI into 2011 were excluded because we wanted a full year's worth of information after their UI end date. Those receiving federal extensions of their UI benefits were also excluded from this investigation. Although we had information at the county level, for purposes of this article, we provide analysis at the ESA level. This works particularly well given the similarity between Emery and Carbon counties as well as the similarity between Grand and San Juan counties.

Demographics

In Castle Country (Carbon and Emery counties), 73 percent of UI claimants are male. The average age of claimants in this region is 37.5 years old. Given the area's coal mining economy, it is no surprise that the greatest proportion

Characteristics Cont.

of UI claimants (21 percent) comes from the mining industry. Coal mining has taken some big hits over the past few years as low natural gas prices and stricter environmental regulation from the federal government have caused all coal mining operations to reevaluate their costs of production. Of the claimants, 15 percent came from construction, 11 percent from administrative support/waste management and 8 percent came from transportation/warehousing.

Comparing the Castle Country demographics with those of the Southeast ESA provided some interesting contrasts. In the Southeast area (Grand and San Juan counties), 57 percent of claimants are male (compared to 73 percent in Castle Country). Again, local economies can account for this: whereas Castle Country is driven by a coal mining economy (an industry whose majority workforce is male), the Southeast economy is driven by leisure and hospitality. Food services/accommodations and art/entertainment/recreation are industries whose workforce employ a more equal proportion of females compared to coal mining. From this, it naturally follows that 33 percent of all UI claimants in the Southeast came from leisure and hospitality, 17 percent came from construction and 9 percent came from retail trade and from mining. The average age of claimants in the Southeast is slightly higher at 39 years old. Please refer to Figure 1 for a further breakdown of movements from industries into UI benefits.

The more interesting questions center on what happens to claimants once they leave the Unemployment Insurance program. Do they return to the same industries? Are their wages after receiving UI typically higher than pre-UI wages? To answer

Figure 1: What Industries UI Claimants Come From 2009–2010

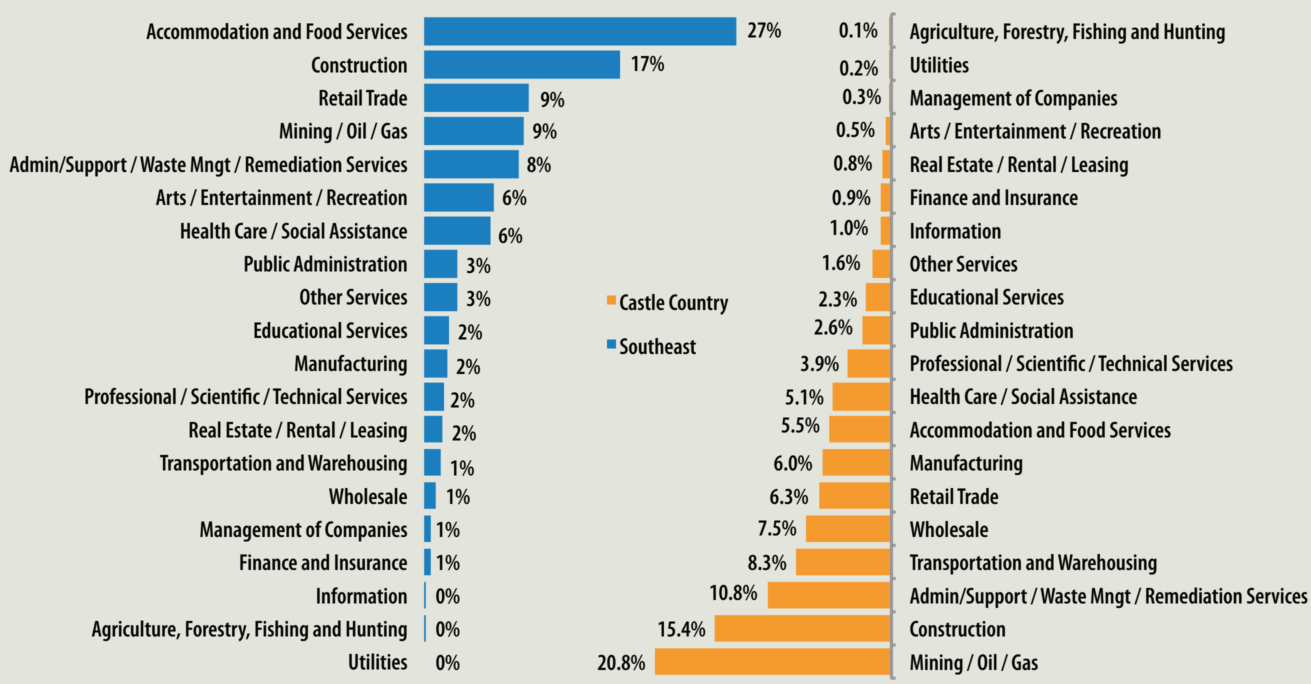
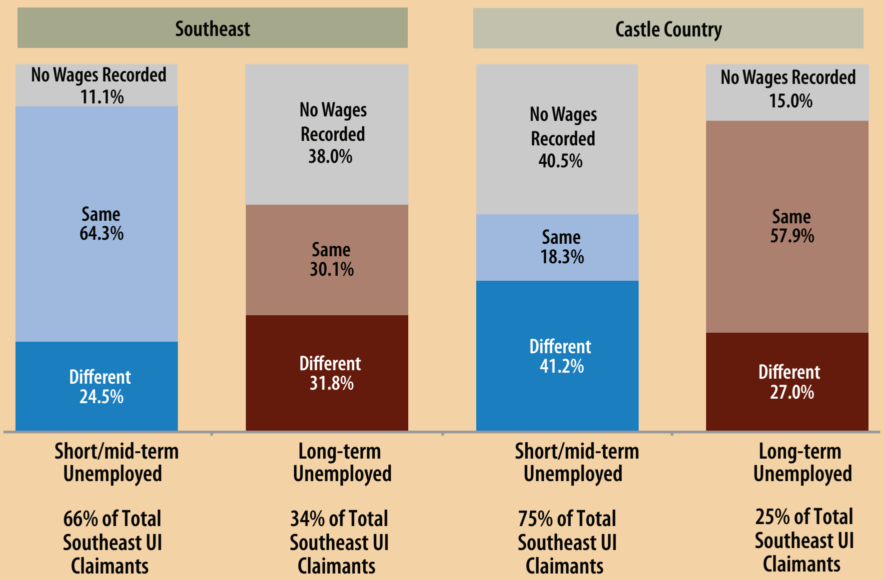


Figure 2: Movements of Claimants to Industries After Time with UI



these questions it was important to decide what constituted a short-term unemployed claimant versus a long-term unemployed claimant. Given that the average period of time a claimant received payments was about 20.5 weeks, short- and mid-term unemployed are those who were on UI benefits for 20 weeks or less and long-term unemployed are those who were on UI benefits for at least 21 weeks.

Does It Pay to Stay?

One form of criticism often applied to the UI benefit program is that a lot of claimants will choose to remain on benefits while only casually looking for full-time employment. To be clear, a claimant must be actively engaged in finding full-time employment and is even required to undergo a series of employment activities supervised by DWS employment counselors. Employment counselors are charged with assisting these claimants in their search for new employment. Some critics argue, however, that in some cases claimants can simply go through the motions with no intent to re-enter the workforce until it suits them. It is further speculated that these individuals try to prolong their stay on the UI program until they find a job with higher wages than before or merely try to exhaust their allotted UI funds. The more important question may be if it is beneficial to individuals to choose to prolong their stay on the UI program. Running a simple regression analysis on long-term unemployed benefit recipients actually reveals that for each additional week an individual receives UI benefits in the Castle Country area, his or her average annual wage will tend to decrease by about $180. Similarly, for each additional week an individual benefits in the Southeast area, his or her average annual wage will tend to decrease by about $120. Claimants might benefit from the knowledge that longer unemployment insurance claim durations tend to correlate with lower wages than were received in earlier employment.

Re-employment

The main question this article seeks to answer is what happens to UI claimants after they leave UI. Figure 2 tracks these movements for the Castle Country and Southeast areas. In Castle Country, 66 percent of claimants were considered short/mid-term unemployed; that is, they stopped receiving UI benefit payments for at least 13 weeks. Of this population, 64 percent returned to work in the same industries (two-digit NAICS sector), while 25 percent found employment in other industries. Eleven percent of claimants were found to have had no recorded wages in the quarter after they left UI, which typically means that the claimant did not get a job after leaving (claimants could also have left the state, but these instances are relatively infrequent). Compare these to long-term unemployed claimants in Castle Country: 30 percent returned to their pre-UI employment sector, while 32 percent switched industries altogether. On the other hand, 38 percent were found to be holding no job after their departure from UI.

Interestingly, the movements are quite different in the Southeast. For short/mid-term unemployed claimants, only 18 percent returned to the same industry as before, compared to Castle Country, where 64 percent returned to the same industries. While 41 percent of Southeast claimants moved on to different sectors, 40 percent had not reported any employment. Again, for long-term unemployed claimants in the Southeast area, the findings were substantially different from Castle Country. While 27 percent found employment in different industries than their pre-UI employment, close to Castle Country's 32 percent, 58 percent returned to the same industries as before. Fifteen percent had no recorded jobs in the quarter after they left the UI program.

The marked differences between the movements of UI claimants can at least be partly described by the different economies. The Southeast economy, driven primarily by Grand County's highly seasonal leisure and

Characteristics Cont.

hospitality, goes far to explain the reason 89 percent of short/mid-term unemployed claimants go back to work after leaving the UI program. Although 38 percent of Southeast short/mid-term unemployed claimants had no employment in the first quarter after being on UI, this number falls dramatically down to just 12 percent in the second quarter after leaving UI. In Castle Country 41 percent of short/mid-term claimants showed no employment in the first quarter after leaving UI, but it dropped dramatically to 14 percent in the second quarter after leaving the UI program. The troubling statistic here is that 38 percent of long-term unemployed claimants subsequently recorded no employment in the first quarter after leaving UI. This number drops to 34 percent in the second quarter but does not really improve in the third and fourth quarters after leaving UI. A look into Figure 3 may shed more light on this phenomenon.

Major Movements Among Unemployment Insurance Claimants

Figure 3 tabulates just the industries where the majority of the movements occurred over the 2009 to 2010 time frame that these data represent. As Figure 3 illustrates, the major movements between industries typically involve the same industries overall. For example, in the Southeast area, most claimants who changed industries moved into construction, retail, administrative/support/waste management or accommodation/food services. Mining seems to be the industry from which most post-UI claimants switched employment. In Castle Country, 47 percent of claimants who found jobs in mining were from the wholesale trade industry. Finally, those claimants who do not appear to have any employment after leaving the UI program are most often from mining and construction.

Significance of the Findings

What this very brief analysis demonstrates is a wealth of actionable information regarding the Unemployment Insurance program, especially as it relates economic development programs geared at moving the UI claimants back into the workforce. For example, the longer a claimant continues to receive unemployment insurance benefits, the lower the average annual wage will be for the claimant once he or she returns to the labor force. The ability to tailor the data to localized regions enhances DWS's ability to support the economic stability and quality of Utah's workforce.

Figure 3: Major Industry Changes in the First Quarter After Leaving UI

Castle Country		Southeast	
New Industry	**Old Industry**	**New Industry**	**Old Industry**
Mining	47% from Wholesale Trade	Construction	38% from Mining
Retail Trade	No predominant industry of origin	Retail Trade	33% from Mining 13% from Healthcare/Social Svc
Admin/Support Mgmt/ Waste	25% from Construction 19% from Wholesale Trade	Admin/Support Mgmt/ Waste	34% from Construction 16% from Mining
No Employment	14% from Mining 13% from Construction 10% from Wholesale Trade	Accomm & Food Svc	20% from Admin/Support Mgmt/ Waste 18% from Retail
		No Employment	17% from Mining 17% from Construction 14% from Accomm & Food Svc 11% from Admin/Support Mgmt/ Waste

Economic Indicators

BY ERIC MARTINSON, ECONOMIST

Castle Country

The economic picture in Castle Country illustrates a skittish labor market. As the market for oil and gas continues to drive increased employment within its sectors, jobs based on coal mining in Castle Country look bleak at best. The gap between Carbon and Emery counties' unemployment rates (currently at 6.9 percent and 7.3 percent, respectively) and the state unemployment rate (currently at 6.0 percent) is evidence that Carbon's unemployment rate has been at least one percentage point higher than the state's for six of the last seven months and Emery's for the last eight consecutive months.

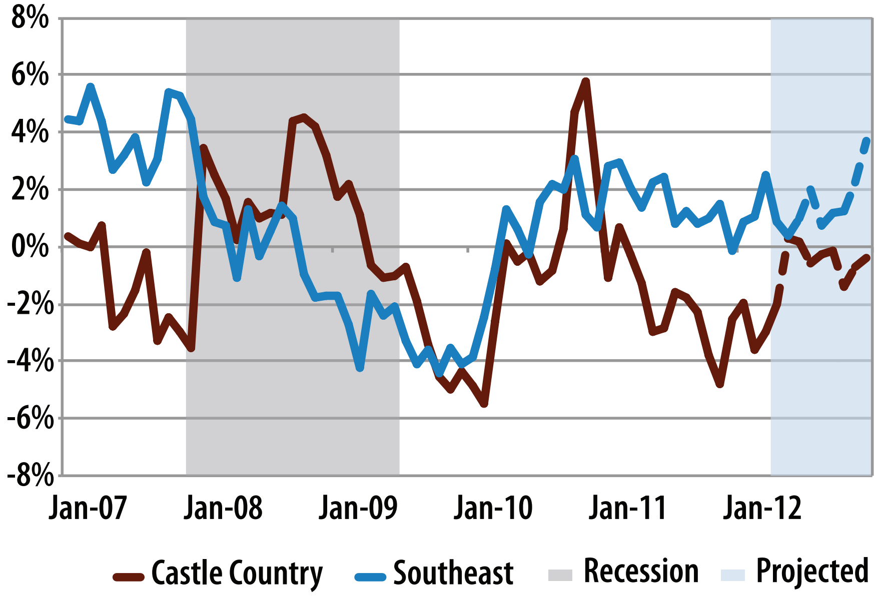
Total nonfarm employment for Castle Country (Carbon and Emery counties combined), analyzed on a year-over basis, experienced back-to-back-to-back decreases from January to March this year. The March year-over change in employment showed a drop of 3 percent, or a loss of 389 compared to March 2011. Overall, the year-over drops mostly came from mining, professional and business services and some from construction. These losses outweighed the meager gains in manufacturing and trade transportation and utilities employment.

As the data continue to come in for this year's second quarter, any major employment gains throughout the rest of the year are not unexpected. Decreased activity in coal mining coupled with a stalled national economy will likely keep job growth in Castle Country stagnant through the end of 2012.

Carbon County

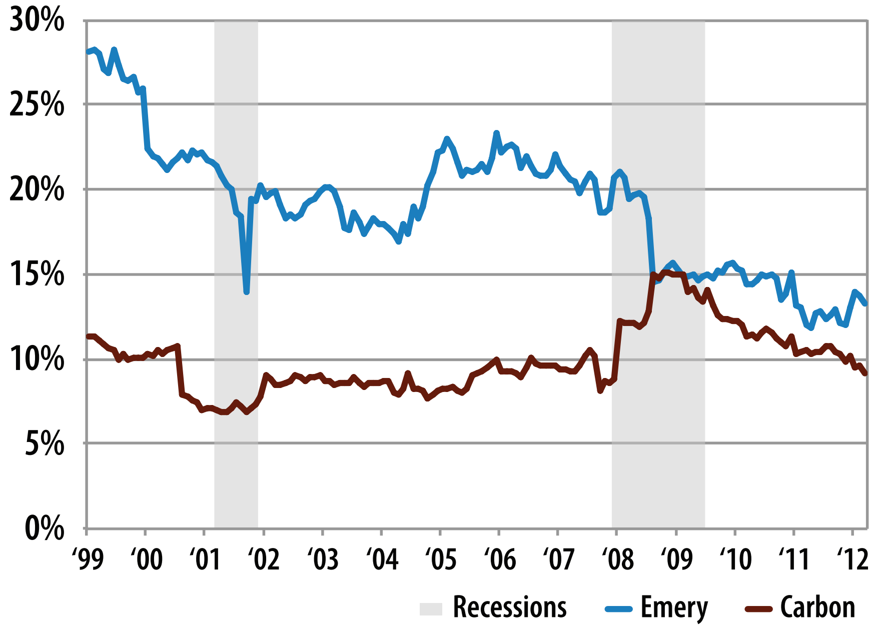
In Carbon County, the year-over-year decrease in mining jobs was almost offset by the year-over job gains in construction.

Figure 4: Year-Over Percentage Change in ESA Employment 2007–2013



Source: Utah Dept. of Workforce Services

Figure 5: Mining as a Percentage of Total Jobs (County) 1999–2012



Source: Utah Dept. of Workforce Services

Economic Indicators Cont.

Total nonfarm year-over employment grew 0.5 percent, or 49 jobs, by March. These gains in overall employment are welcome after 11 months of year-over losses in Carbon County. As Figure 2 illustrates, mining jobs, as a percentage of total employment in Carbon County, have fallen from 15 percent in mid-2008 to under 10 percent in March 2012. This marks a return to where mining jobs have been relative to total jobs during most of the previous decade. March reported a 12.5 percent drop in mining jobs compared to the previous March. Other year-over-year job losses occurred in leisure and hospitality (by 57 jobs). The larger employment gains occurred in construction, professional and business services and other services.

The increases in construction jobs in March manifested themselves in total permit-authorized construction values, which from January to April is ahead by 6 percent compared to the same period in 2011. Although the rate of growth in taxable sales has slowed during the first quarter, year-over-year taxable sales are still up 5 percent.

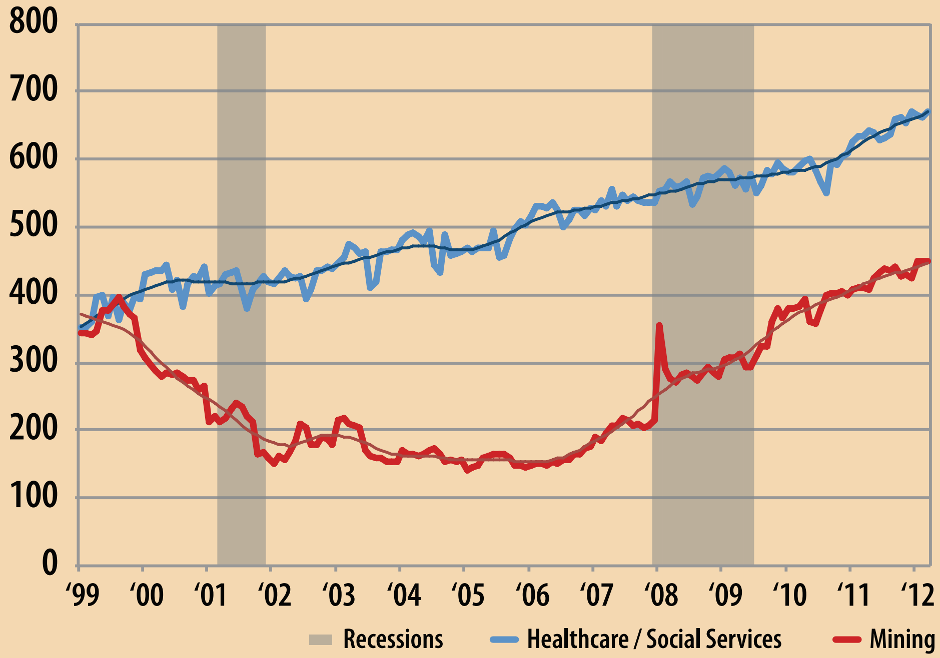
Emery County

The story in Emery County is similar to that of Carbon County. Year-over total employment for the county was down 11.7 percent (438 jobs lost in March of this year compared to 12 months before). While this appears to be the worst year-over decrease in total employment in more than a decade, half of the job drops are due to massive power plant overhauls. These jobs have been coming in spurts of around two to three hundred contractors from across the country for a couple of months before they leave again. This explains the large spikes and subsequent drops in employment within the professional business services sector over the past two years.

Construction took a big hit during the first quarter, dropping an average of 29 percent year-over from January to March. Mining has also been losing jobs. In fact, as a percentage of total county employment, mining dropped by half, from 28 percent in January 1999 to 9 percent in March 2012. Figure 2 reveals the dramatic decline in Emery County mining jobs relative to the total. Those workers may have transferred over to Carbon County as this county saw a sharp increase in employment at the same time. Despite this, the trends suggest that coal mining as a whole for both Emery and Carbon counties are declining in tandem.

Taxable sales are down 10 percent in first quarter 2012 compared to last year's first quarter. Permitted dwelling units and permit-authorized construction are declining further compared to last year's pace. Initial unemployment claims on a four-week moving average basis are higher

Figure 6: Healthcare/Social Services and Mining Employment in San Juan County 1999–2012



this year compared to last. All told, Emery County has a long road to recovery.

Southeast

Seasonally adjusted unemployment rates are currently at 9.0 and 10.6 percent in the Southeast region. Although these rates are still higher than national and state unemployment rates, it is important to note that job growth has been positive. For both counties combined, employment growth in the area has been positive for 20 months now, with March's year-over employment change at 2.5 percent. With current trends, there is no reason why the Southeast ESA should not be able to maintain at least a reasonable amount of year-over employment growth through the end of 2012.

Grand County

Compared to the first quarter of 2011, Grand County had a strong first quarter in 2012. March's year-over employment change grew to 7.5 percent. This is equivalent to 318 more jobs in March 2012 than 12 months before. The majority of these gains came from the services sector. Despite low employment changes in January and February, March brought 86 more jobs to leisure and hospitality compared to last March. In fact, year-over leisure and hospitality employment trends have been moving up, albeit slowly, for the last several years, with an increased pace of growth concentrated over the last year and a half. Public administration, too, has been adding jobs throughout the first quarter. It picked up 97 more jobs year-over. Another industry with notable job gains is professional business services, adding 71 jobs year-over, a 35 percent increase from 12 months prior.

So far, Grand County is on a positive track regarding construction. Like many counties in the state and throughout the country, construction jobs remain depressed. However, from January to April 2012, the most up-to-date data we have, Grand County has increased their permitted dwelling units by 33 percent compared to the same period last year. Also, total permit-authorized construction values are 49 percent higher during the first four months of 2012 compared to the same period in 2011. Finally, Grand County is continuing to sustain its year-over growth in gross taxable sales. During the first quarter of 2012, the county had increased sales on a year-over basis by 15 percent, the largest year-over gain since before the recession.

San Juan County

San Juan County remains one of the counties hit hardest by the recent recession. At 10.6 percent, the unemployment rate remains higher than both state and national rates, though this is a 0.2 percentage point decrease from May. Furthermore, total nonfarm employment year-over growth has been negative in San Juan County since July of 2011. In March 2012, San Juan County's total employment dropped by 2.6 percent, or 108 jobs. Recovery has been tough for this corner of the state but there are some bright patches.

Mining continues its growth in employment. Now going on six years of sustained growth, mining in San Juan County was responsible for 450 jobs, which is just over 11 percent of total employment in the county. Another area of consistent growth for San Juan County employment has been the healthcare and social services industry. March totaled 669 healthcare/social services jobs, or 16.7 percent of total employment in the county.

Construction has been losing jobs over the past year and a half, which is no surprise as construction jobs have been depressed in most regions of the state. These conditions have yet to reverse themselves and may not do so for at least another year in San Juan County. Other industries whose job counts have been decreasing over the last couple of years include public administration and transportation, though the losses in transportation have been more subdued and are flattening out.

Now going on six years of sustained growth, mining in San Juan County was responsible for 450 jobs, which is over 11 percent of total employment in the county.

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Economic Analysis

BY MELAUNI JENSEN

To safeguard the economy against short-term losses and help individuals who have lost their income because of a layoff, Utah enacted the first unemployment compensation law on August 29, 1936. On September 15 of that same year, the state received approval under the Social Security Act to administer unemployment insurance funds. The Department of Workforce Services is the administrator of the Unemployment Insurance Benefits program (commonly called UI) for Utah. Through this program, DWS collects contributions, determines eligibility, takes claims and pays benefits to unemployed workers.

Where does the money come from? In order to entice states to endorse some sort of program to help the unemployed, the federal government gave a tax incentive to employers in industrial and commercial industries who have eight or more employees working for at least 20 weeks in a calendar year. Through both the Social Security Act, which authorizes the use of grants toward states, and the Federal Unemployment Tax Act, which pays a portion of the cost for each state, funds are collected by DWS and kept in a trust fund account from which DWS can withdraw at any time and use exclusively for this program.

To be eligible for these benefits, unemployed workers must meet certain criteria as defined by DWS and then they will receive an amount based on their earnings over a recent 52-week period. To keep these temporary benefits, they must actively search for work each week and document their searches. They are also offered free workshops and other resources to help in their efforts to obtain employment.

In 1970, due to a significant economic downturn in the late 1960s, an extended benefits program was developed between the federal government and the states to allow those who had exhausted their regular benefits to continue receiving benefits for an extended period of time. If the unemployment rate continued to be above 5 percent for more than 13 weeks, an eligible recipient was given extended benefits. By 1992, the states were given the option of taking on an additional formula that would trigger extended benefits. Today, extended benefits may be paid in Utah, provided that the state is in an extended benefit period as defined by the law and other requirements. This federal and state partnership and the rules and regulations are all intended to stabilize the economy and encourage employers to keep skilled labor and offer steadier employment.

As much as we would like to be rid of unemployment, it is a part of life. Even in the best of times, there will be individuals who are employable without a job for many different reasons. Over the years as the economy has changed, the Unemployment Insurance Benefits program has also changed the duration of benefits, qualifications, employers who are subject to the tax and requirements. More changes are likely to happen in the future as we face new challenges and learn new processes, all in an effort to help stabilize the economy.