

A Look into Local Employment by Firm Size

BY ERIC MARTINSON, ECONOMIST

The Unemployment Insurance program provided the basis for the last issue of Local Insights. In it we discussed the amount of time that certain individuals had received Unemployment Insurance. For this issue, data from the UI program once again provides some looks into the labor market, this time in an evaluation of employers. These data have yielded some interesting findings that show the relationships that exist between firm sizes, economic phenomena, seasonal trends and other variables.

In the state of Utah, 95 percent of firms are small employers (firms that employ fewer than 50 individuals). These 95 percent of firms are responsible, however, for just 35 percent of all employment in the state. Furthermore, while large employers represent only less than 1 percent of all firms in Utah (0.3 percent, to be exact) these large firms are responsible for 30 percent of total employment in the state. To what extent is this the case in the Uintah Basin Economic Service Area (ESA: Daggett, Duchesne, and Uintah counties)? To what extent are larger firms shielded from economic shocks (booms and busts), and to what extent do other economic considerations affect different sizes of businesses? Studying employers by firm size allows one to answer these and other questions. It is important to note that while government typically has a strong presence in rural areas of the state, the analysis in

this article involves only the private sector. It is also important to first acknowledge the nature of the data as well as its power to explain these answers.

Caveats

The data used in this analysis come from employers registered in the Unemployment Insurance program. This means that the data will capture much of the employer landscape but some of the picture is not available. For instance, self-employed individuals are not included in UI. As such, the portrait may or may not be the same for self-employed individuals. This data set also excludes the public sector; only the private sector is analyzed here.

Another issue is that of defining small, medium and large firm sizes. Unless otherwise explicitly defined, the definitions of firm size follow those used by the Bureau of Labor Statistics. Small refers to firms that employ between 1 and 49 individuals, medium-sized firms employ between 50 and 499 individuals and large firms employ a total of 500 or more individuals. A consistent definition across areas regarding firm size facilitates cross-comparisons, despite the fact that rural areas tend to not have very many firms that employ more than 500 individuals.

A final consideration when defining the parameters of this analysis was the question of how to evaluate those firms who have

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multiple establishments in various areas. Under the UI program, firms who have more than a single establishment are given a master UI account. This master account is connected to the county in which that master account is filed. To illustrate, suppose Bank X, a firm that employs over 500 individuals in total, has a master UI account in Salt Lake County. These 500+ employees are spread across 50 different establishments throughout Utah. While a particular establishment, say Branch 6 in Duchesne County, may only employ 15 individuals, that establishment (Branch 6) belongs to the master account of Bank X, which resides in Salt Lake County that employs over 500 people. Branch 6, therefore, would be numbered among large firms in Duchesne County despite the fact that Branch 6 employs only 15

individuals. To say that Bank X (represented in Duchesne County by Branch 6) is a small employer may misrepresent the overall effect of large employers in a particular area.

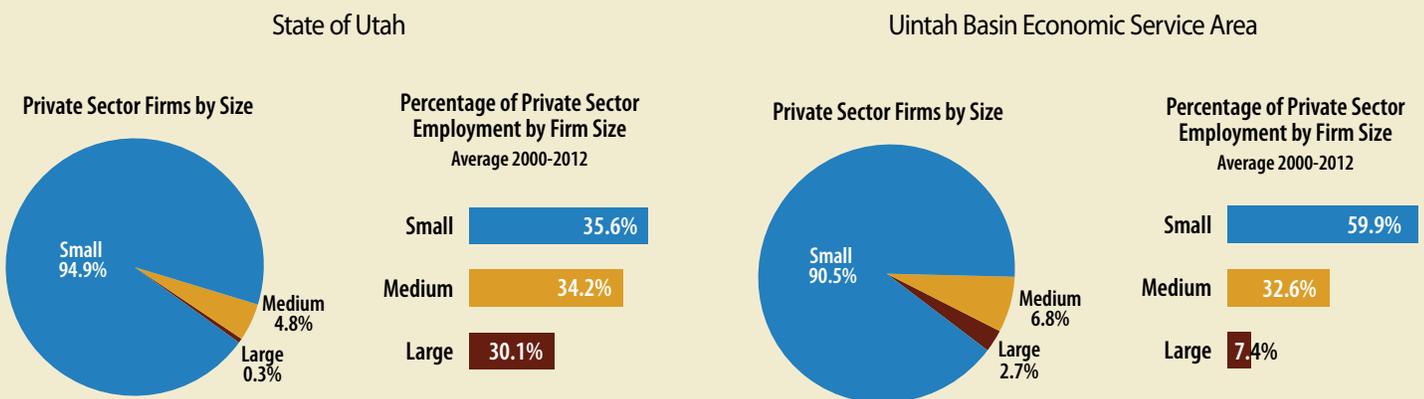
Employment Trends by Firm Size

In the Uintah Basin ESA, over 90 percent of private sector employers are small firms, 7 percent are mid-size firms and fewer than 3 percent are large firms. This is comparable to the employer size profile at the state level. However, whereas large private sector employers at the state level (which account for less than 1 percent of all private sector employers in the state) are responsible for one third of total private sector jobs, large employers in the Uintah Basin explain only about 7 percent of total private sector employment. Although large employers are a big deal in the larger metropolitan areas in terms of how many jobs they provide for the workforce, in the Uintah Basin it is all about the small and medium private sector firms. In particular,

small firms typically employ 60 percent of all private sector jobs in the area, and mid-size firms employ one in every three private sector jobs [Figure 1].

Over the last decade, small and medium employers experienced a boom in employment. The average growth rate in jobs among small employers from 2003 to 2009 was 9.4 percent. The employment rate of growth among medium firms during the same period was an impressive 11.3 percent. Large businesses in the Uintah Basin region, on the other hand, experienced little growth over the past decade, and from 2003 to 2009 averaged 0.8 percent in total private sector employment growth. Once the 2008 recession hit, employment in small and medium firms plummeted. Employment among large firms, however, remained relatively constant throughout the recession and still only accounts for just over 6 percent of total private sector jobs in the region [Figure 2].

Figure 1: Private Sector Firm Size and Employment



Industry Trends

It is quite clear that times were good among small and medium private sector businesses in the years leading up to the Great Recession. Even large employers, if they were not hiring more employees, were not cutting their payrolls during this time. What is also quite clear is that employment dropped significantly in small and medium businesses once the recession hit. What is interesting to see is the apparent lag in the drop in job levels, which does not begin until mid-2008. The Uintah Basin's unique economy, driven by oil and gas, may account for this lag. As businesses across the country were coming to grips with the recession by means of shifting short-term investments into other "recession-proof" commodities, many decided to invest in energy, coal, oil and natural gas. Peaks in employment within these three industries before and during the Great Recession support this view. Whether this explains the lag in impact the recession was to have on employment in the Uintah Basin or not, what is certain is that even an energy-rich economy was not beyond the grips of the Great Recession.

Figure 3 shows the mining employment series from January 2000 to March 2012 [Figure3]. What is evident is a pre-recession boom in employment, particularly from early 2006 to about mid-2007, where employment stagnated for small, private-sector mining firms, and even dipped for medium mining firms. What follows, instead of falling job levels during the first half of the recession, is yet another spurt of employment. But once the severity of the financial meltdown was realized by late 2008, even the burgeoning mining sector had erased all of the increases in jobs it had experienced since early 2006 within just a few months. By mid- to late-2009, the

Figure 2: Uintah Basin Total Employment by Firm Size

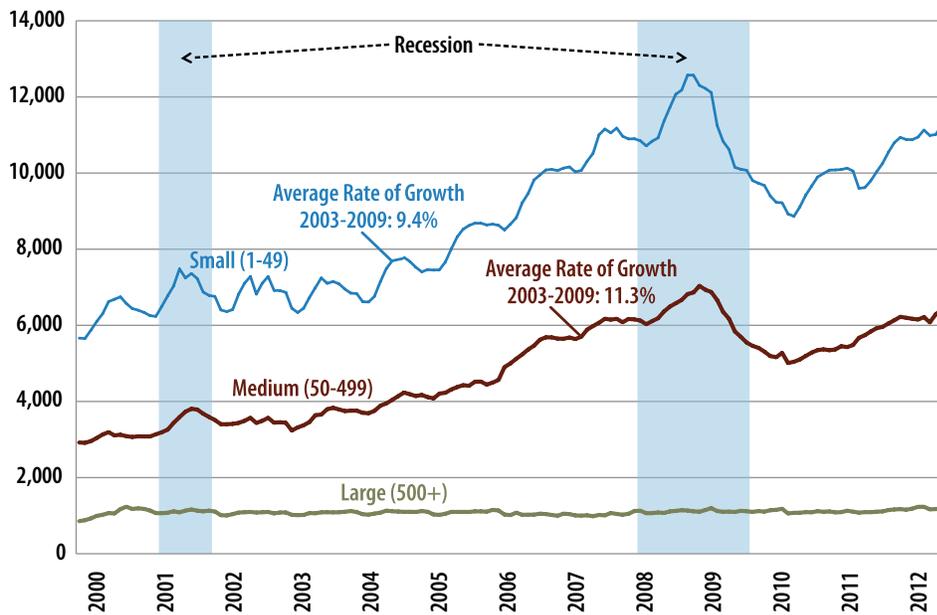
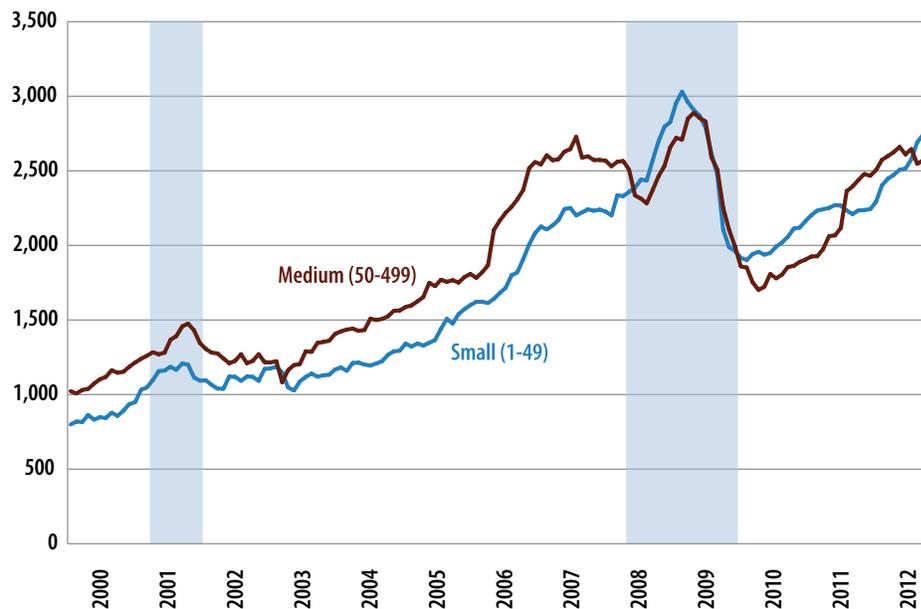


Figure 3: Uintah Basin Total Mining Employment by Firm Size





A Look into Local Employment... Cont.

demand for energy began to pick up once again and private sector mining employment has not looked back since. In fact, the oil and gas boom in the Uintah Basin has helped to lead the state into an impressive recovery from the dregs of the Great Recession. Today, small and medium mining employers in the Uintah Basin are responsible for roughly the same number of private sector jobs at just over 2,500 each.

The Uintah Basin is fortunate to have an economy based on energy during what can be summarized in most other areas across the nation as a sluggish recovery.

Not only has mining activity benefitted the region in terms of mining jobs, but also this activity creates positive impacts in other facets of the local and broader economy. The transportation/warehousing industry provides a fascinating storyline. Figure 4 reveals a growth pattern parallel to mining leading up to and throughout the recent recession. What follows, however, is a different story [Figure 4]. Instead of employment within small and medium firms both gaining employment at a parallel rate like the historical series of the two size classes would lead one to expect, small private sector transportation firms experienced all of the growth in jobs, while employment within mid-size firms stagnated. The impacts of the recession

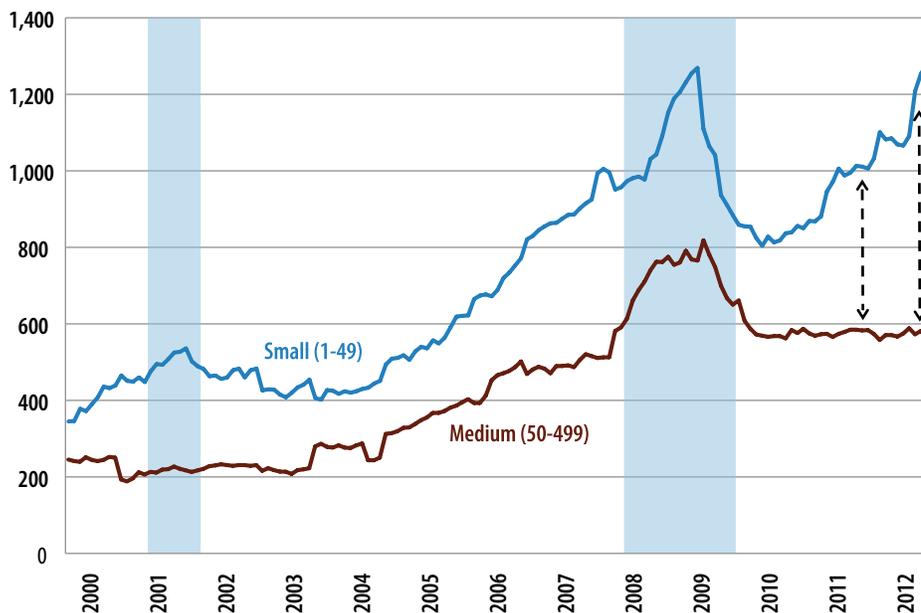
seemed to have created an environment that has so far allowed smaller contractors to benefit from the oil and gas boom in the Uintah Basin.

Employment in other industries, such as retail and construction, also show the impact the recession has had on jobs in the area. Employment in these industries has turned the corner and is recovery-bound, among small and medium businesses alike.

Mostly small and medium employers drive employment in the Uintah Basin region. These employers were hit by the recent recession, yet both have shown signs that an impressive recovery is in progress. On the other hand, the employment presence from large employers is relatively small in the Uintah Basin. What's more, the employment level among large private sector firms has remained relatively constant throughout the last decade, even before, during and following the Great Recession. This and other phenomena reveal some differences in how different sizes of firms are able to react given various conditions in the different markets.

Studying employers by firm size over time allows one to see the evolving nature of the labor market. Analyzing these dynamics at the sub-state level lends itself to unique, localized perspectives into regional economies, which is essential for employers, prospective employees and policy-shapers tasked with making big decisions. The effect of economic shocks, for example, can be seen in the historical series, and the effects of these shocks are different within different industries. These differences are based not only on firm size but also on regional economies. The way firms decide to deal with an ever-changing economic landscape, in turn, influences other firms around them as well as the broader economy.

Figure 4: Uintah Basin Total Transportation/Warehousing by Firm Size





The Uintah Basin Leads On

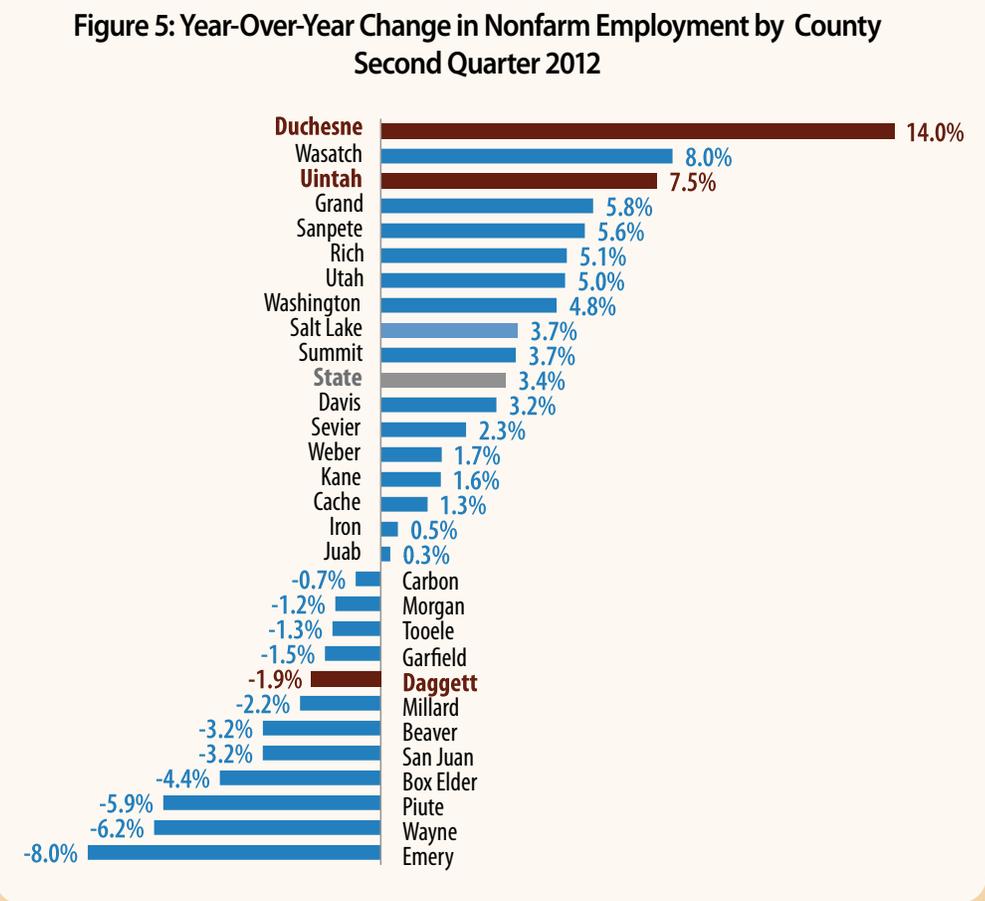
BY ERIC MARTINSON, ECONOMIST

Uintah Basin continues to lead the state in economic recovery thanks to sustained oil and gas activity. Compared to any other region in Utah, the Uintah Basin was the top performing economic area in terms of total employment growth during the first and second quarters of 2012 [Figure 5].

The combined total employment for the second quarter of 2012 was up 9.6 percent in Daggett, Duchesne and Uintah counties from last year's second quarter. Year-over-year change in total wages for the Uintah Basin was up by 13.3 percent. As has been the story for several quarters now, the solid employment and wages growth is led by the oil and gas industries that have led the surge toward economic recovery in the Uintah Basin, which has seen a 14.8 percent year-over growth in employment, or 695 jobs. The impacts of the oil and gas industry can be seen in other industries, like construction, which saw an increase in 539 jobs compared to second quarter 2011. Other industries in the Uintah Basin that experienced year-over-year employment gains during the second quarter were transportation and warehousing, wholesale trade, and accommodation and food services.

Duchesne County

Given the sustained activities tied to the oil industry, Duchesne County employment continues to reap the benefits of economic growth. Current unemployment is at 3.5 percent, and Duchesne has added 14.0 percent more nonfarm jobs in this year's second quarter. This equates to an average of 1,100 jobs, the majority of which come from the goods production sector, particularly mining and construction.



Another key driver behind second quarter employment growth is the transportation and warehousing industry, an industry well attached to the success of oil and gas.

Mining

Mining jobs in Duchesne County come primarily from the oil and gas industry. These jobs are mainly crude oil and natural gas extraction as well as support activities for mining, such as oil/gas extraction drill/pump construction, geo-mapping/geological surveying, etc. Oil and gas related jobs were up in the second quarter by an impressive 30 percent, or 501 jobs, compared to second quarter 2011. Growing

employment in mining for the area means growing employment in other industries as well.

Construction

To support the growing economy in Duchesne County, construction activity was also a strong performing economic indicator in the second quarter. Construction jobs increased by 40 percent over last year's second quarter, or an average of 258 more jobs year-over-year. Again, these gains were driven primarily by the oil and gas industry, which saw a major growth in pump/pipeline construction and some highway, street and bridge



The Uintah Basin Leads On Cont.

construction connecting the various oil and gas rigs. On the other hand, dwelling unit permits for Duchesne County are up 2 percent so far for 2012 and total permit-authorized construction values are up 23 percent so far for 2012.

Transportation

Besides construction, increased activities in mining and construction, in turn, led to a jump in activities in the transportation industry needed for the movement of raw materials necessary for production and construction. The transportation industry added 127 more jobs in the second quarter of 2012 compared to last year. This is a 15 percent increase year-over.

Another industry that has been adding jobs recently is the wholesale trade industry. During the second quarter, the industry has added an average increase of 26.7 percent compared to last year's second quarter. Other areas that have seen positive growth over the second quarter are accommodation and food services (51 more jobs year-over-year), public administration (41 more jobs), utilities (12 more jobs) and a few other industries.

Uintah County

Uintah County is the other key player within the oil and gas surge in the state. Current unemployment is at 3.3 percent, and Uintah County has added 7.5 percent more nonfarm jobs in the second quarter

2012 compared to last year's second quarter. Like Duchesne County, the key drivers for the second quarter year-over-year growth in Uintah County come largely from mining, construction, transportation and warehousing, and accommodations and food services. Along with increased employment activities, year-over-year taxable sales are up again for the ninth consecutive quarter, currently sitting at 27 percent in the second quarter 2012.

Mining

As more drilling locations are reviewed and given the green light from the Bureau of Land Management, oil and gas in Uintah County carries on as usual, though as natural gas prices continue to stay relatively low, jobs in the industry might start to show signs of flattening out. Second quarter employment in mining, however, is up 6.4 percent (194 more jobs, on average, than last year's second quarter).

Construction

Construction seems to be the big story during second quarter 2012 in Uintah County. With 279 more jobs than last year during the second quarter, construction employment grew by 32 percent. Not only is much of this activity tied to pipeline and highway construction surrounding the oil and gas industry, but also the number of new permitted dwelling units was up by 438 in July 2012 compared to last July.

This is a great signal to the economic stability in the area. Construction values were also up by double in July 2012 compared to July 2011.

Transportation and Warehousing

An industry closely aligned with oil and gas is transportation and warehousing. Predictably, as jobs are up in oil and gas, so too will jobs be up in transportation. There were 146 more jobs, on average, during the second quarter in transportation. This equates to a 17 percent increase and still shows no signs of slowing down. As anyone on the highways in northeastern Utah recently will attest, the roads are busy with oil and gas trucks.

Other Industries

The leisure and hospitality sector saw some important gains over second quarter 2012, specifically in the accommodation and food services industry. The average number of jobs went up by 142, an increase of 14 percent year-over-year. Retail and wholesale trade added more jobs during the second quarter, as did financial activities and professional and business services. Healthcare and social services saw a largest drop in employment year-over-year, slipping by 2.2 percent, or 23 jobs.

Daggett County

Daggett County had an average change in total nonfarm employment of -2 percent.

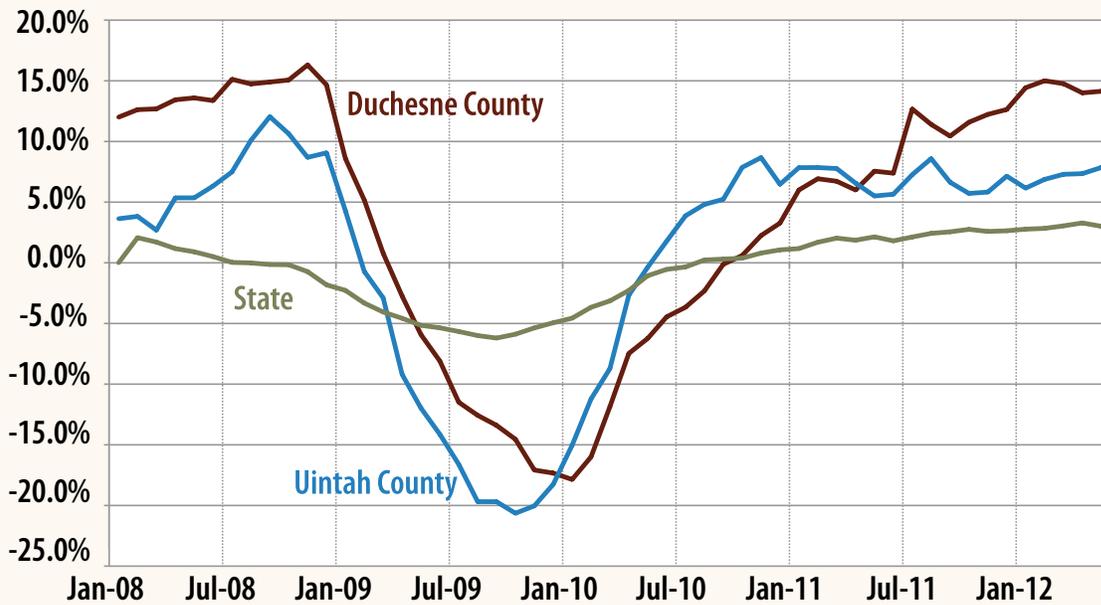
This is only eight jobs, however, most of which came from the services sector. Leisure and hospitality added a few jobs during the second quarter as did the goods production sector.

The Uintah Basin economy is growing. Compared to any other region in Utah,

the Uintah Basin was the top performing economic area in terms of total employment growth during the first and second quarters of 2012. The combined total employment for the second quarter of 2012 in the area was up as well as year-over-year change in total wages.

The combined total employment for the second quarter of 2012 was up 9.6 percent in Daggett, Duchesne and Uintah counties from last year's second quarter.

**Figure 6: Year-Over-Year Total Nonfarm Employment Change
 Uintah Basin—January 2008–June 2012**





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Small Business Job Creation

BY MELAUNI JENSEN

In August of this year, DWS turned out a new program created specifically for small businesses — that is businesses that have at least 2 employees but fewer than 100. The department recognized the challenges these businesses face in creating new jobs and helping to build their business in a profitable way. To help strengthen the economy, the program focuses on small-business job creation. This program is called BRIDGE, an acronym for Business Opportunity, Readiness Skills, Implementation, Demand, Growth and Employment Creation.

As revealed in the Fall 2012 issues of *Local Insights*, the Department of Workforce Services is responsible for protecting the investment of employers who contribute to the Unemployment Insurance fund and the employees who work for them. In Utah, there are currently over 84,000 business locations that are covered by the Employment Security Act, and 94 percent of those are private businesses with fewer than 100 employees. Of that group, 90 percent of businesses employ fewer than 20 people. This equates to just over 1,100 business locations, both public and private, which employ 250 or more workers.

Owning a small business can bring difficulties that large businesses do not share. Essentially they need to employ enough workers to sufficiently cover the essentials but still bring in enough money to make a profit. This can be difficult when coming up against unforeseen expenses: equipment breaks down, the cost of goods rise or a natural disaster hits. A small business will also need to manage

time efficiently as it tries to grow and run its everyday operations. This can be even more essential in industries that have trouble finding skilled labor and need to provide on-the-job training. The Bridge Program was designed to help offset the cost associated with hiring a new employee, such as advertising, interviewing and training. In just over three months since its inception, 82 companies throughout the state have applied for this program, creating 277 new jobs in the workforce.

This program is funded entirely by penalty and interest payments that have been collected from the Utah Unemployment Compensation Fund and thus requires all approved applicants to participate and be current on all Unemployment Insurance payments. Bridge funds are also provided on a first-come, first-served basis, and businesses are only allowed to apply once per year. As the goal is to create new jobs, a new hire cannot replace an existing position and must be retained for at least 12 months after creation. Qualifying jobs must also pay at least 80 percent of the County Small Business Average Wage; these guidelines can be found in the master packet on the DWS website. Each approved applicant will receive a reimbursement according to the wage and employment status from their new hire, helping alleviate the cost for these businesses.

For more details on how you can participate in this program, contact the nearest employment center, call 1-888-920-9675 or look online at jobs.utah.gov/employer/bridge/index.html.