

# local insights

wasatchfrontnorth

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

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## The Effects of the Recession on New Hire Trends



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TYSON SMITH, ECONOMIST

One way economists use labor market data is to analyze business cycle trends. During periods of economic growth, aggregate consumer demand increases, and the resulting surge in consumer spending necessitates an increase in production at the firm level. Ultimately, organizations are compelled to invest in new capital to facilitate that increase in output. A manufacturing plant might buy a new machine to augment the capacity of their fabrication process, or a trucking company might purchase a new fleet of vehicles to expand the range of their delivery area. In any case, the first investment a firm generally makes in response to economic growth is to hire additional labor.

There are several reasons why hiring new employees is a desirable means of increasing output. One explanation is that firms rarely run at full capacity, especially at the beginning of an expansionary period. Thus it would be impractical to invest in new assets like equipment or buildings when existing capital is not being fully utilized. Conversely, in times of economic contraction, organizations are swift to suspend hiring, because eliminating new hires represents a prudent and organizationally painless action.

Economists know the value of employment trends in assessing the state of the economy, but who collects this type of information, and how would a researcher access it?

The U.S. Census Bureau collects national employment and demographic information, and aggregates much of that data into the Longitudinal Employer-Household Dynamics (LEHD) database. The Local Employment Dynamics (LED) Extraction Tool has hundreds of indicators and segments with which employment data can be analyzed. These indicators include quarterly employment and earnings by geography, industry type, firm size and worker demographics. While the strength of the database is the assortment of available information that can be extracted, the weakness is time that develops when gathering and processing such comprehensive data.

This issue of Local Insights will evaluate some interesting trends regarding the number of private-sector stable new hires per quarter, as well as the average monthly earnings per quarter for private-sector stable new hires in the Wasatch Front North (WFN) Economic Service Area. Due to the nature of the data, the most up-to-date stable new hire information available is through the second quarter of 2012. Stable





## New Hire Trends (continued)

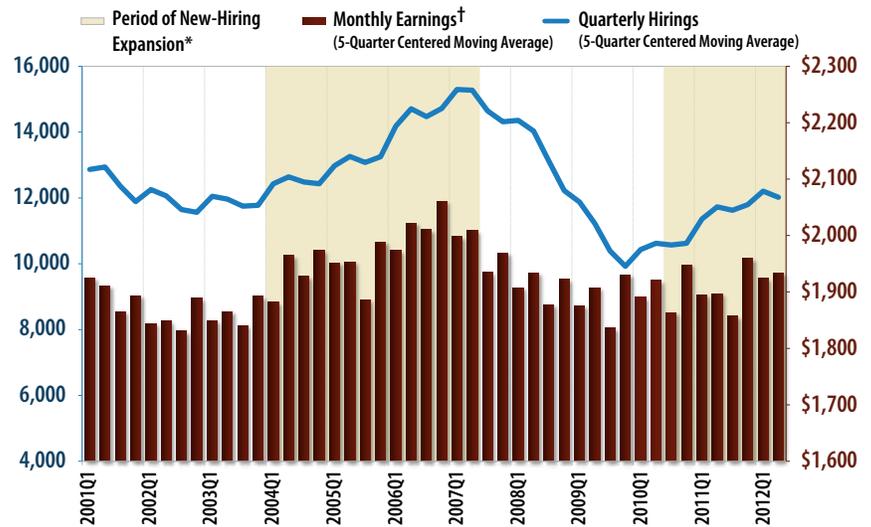
new hire data estimates the counts and earnings for workers who started a job that they had not held within the previous 12 months, and the job lasted at least a full quarter with a given employer.<sup>1</sup>

### General Trends

Figure 1 illustrates three key periods of hiring activity during the last 10 years: 1) the pre-recession expansion in new hires from the first quarter 2004 to the second quarter 2007; 2) the recessionary contraction in new hires from the third quarter 2007 to the second quarter 2010, and; 3) the post-recession expansion in new hiring counts from the third quarter 2010 to the second quarter 2012. Figure 1 also highlights a correlation between new-hire counts and the business cycle.

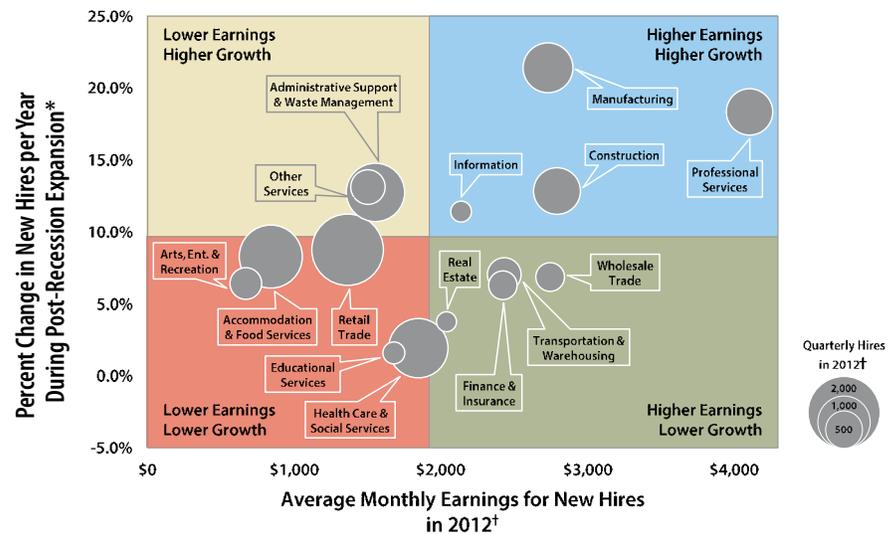
The number of workers hired per quarter in the WFN fell 33.1 percent during the recessionary contraction, while monthly earnings declined 6.0 percent over the same period. The overall hiring trends in the WFN closely match Utah averages, although growth in new-hire counts and new-hire earnings were not as robust during the pre- and post-recession expansions. The year-over growth rate in hiring during the post-recession expansion in the WFN was 9.6 percent per year, compared to the Utah average of 10.7 percent per year. At the same time new-hire earnings grew 0.5 percent per year in the WFN and 2.3 percent per year statewide. Although the number of new hires increased significantly for the WFN and Utah after 2009, both areas had only recovered approximately 80 percent of the quarterly new hires generated at the peak of the business cycle in 2007.

Figure 1. New Hire Counts and Earnings in Wasatch Front North



\*Year-over growth exceeding 1%  
 †Monthly earnings adjusted for inflation (2012 Q2)  
 Source: U.S. Census Bureau

Figure 2: Wasatch Front North New Hires by Industry



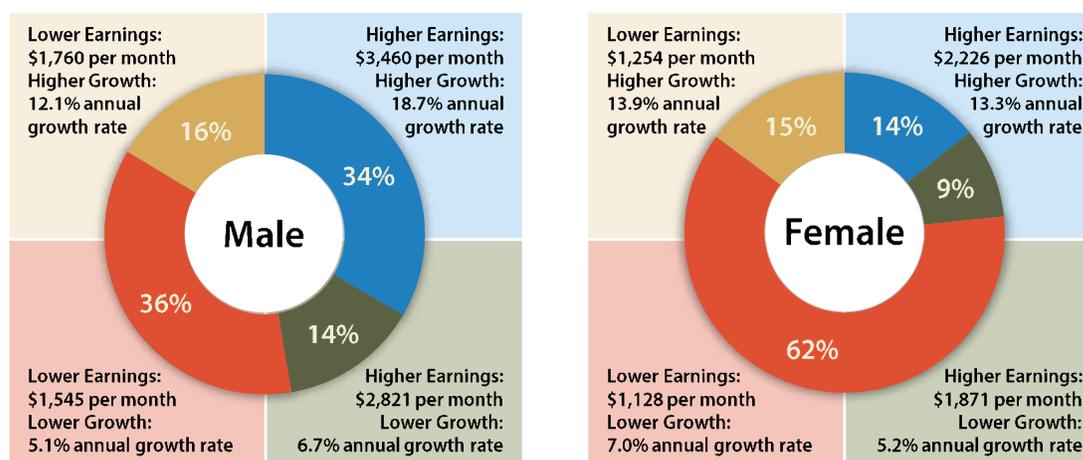
\*Compound annual growth rate from 3<sup>rd</sup> Quarter 2009 to 2<sup>nd</sup> Quarter 2012.  
 †Annual averages calculated for the last year of the post-recession expansion (Q3 2011 to Q2 2012.)  
 Source: U.S. Census Bureau

### Industry Analysis

A closer examination by industry reveals that during the recovery new-hire growth occurred in 18 of the 19 private-sector industries in the WFN. Yet growth in those industries appeared uneven, ranging from 1.6 percent per year in educational services to 21.4 percent per year in manufacturing.

Monthly average earnings for new hires were also unequally distributed with new employees in arts, entertainment, and recreation making \$670 per month, while workers in professional, scientific, and technical services started at an average monthly wage of \$4,107. Figure 2 exposes the contrasts among the 15 industries that

Figure 3: Wasatch Front North New Hires by Gender\*†



\*Compound annual growth rate from 2009 to 2011.

†Monthly earnings calculated using the annual average in 2011 adjusted for inflation (Q2 2012.)

Source: U.S. Census Bureau

averaged over 100 new hires per quarter during the last year of the post-recession expansion. The industries can be grouped into four major clusters based on their relation to the regional averages of the annual new-hire growth rate of 9.6 percent per year, and new-hire earnings of \$1,921 per month.

The following cluster groupings show the average annual growth rates during post-recession expansion and the average monthly earnings from third quarter 2011 to second quarter 2012:

- Higher Earnings, Higher Growth – 17.2 percent per year and \$3,130 per month
- Higher Earnings, Lower Growth – 6.2 percent per year and \$2,479 per month
- Lower Earnings, Lower Growth – 6.2 percent per year and \$1,356 per month
- Lower Earnings, Higher Growth – 12.8 percent per year and \$1,540 per month

The clusters growing faster than average represent industries with elevated labor demand. In the last year of the post-recession expansion, WFN businesses in the top-two quadrants of Figure 2 added

an average of 33.2 percent more employees than they did in the final year of the recessionary contraction (1,225 new jobs per quarter).

An upswing in the demand for labor generally applies upward pressure on earnings forcing firms to enhance compensation as a means of attracting skilled job seekers in an increasingly competitive environment. The shift in labor demand helped to improve new-hire earnings during the recovery by 2.0 percent for industries in the “Higher Earnings, Higher Growth” quadrant, and by 5.3 percent for the industries in the “Lower Earnings, Higher Growth” quadrant. Industries with above-average monthly earnings for new hires represent careers with larger income potential and higher standards of living. By the last year of the post-recession expansion, the average new-hire earnings in the industries with above-average pay were \$1,547 more per month than the average of the industries with below average pay.

Certain industries, like retail trade, are more likely to experience consistent employee turnover regardless of the business cycle, which helps explain why new-hire numbers in some industries were less affected by the economic downturn.

Other industries, like manufacturing, are less familiar with high employee turnover, and the new-hire numbers reflect the full impact of the Great Recession. From the pre-recession hiring peak to the recessionary hiring bottom, construction, manufacturing, and finance and insurance cut new hiring by 60.5, 55.3, and 39.6 percent, respectively. The post-recession expansion only recovered 50.3 percent of the construction hiring, 65.9 percent of the manufacturing hiring, and 68.3 percent of the finance and insurance hiring. Manufacturing and construction are currently in the “High Earnings, High Growth” quadrant. This may not be so much because business is booming in these industries but rather just a natural rebound to fill in recession employment losses.

## Demographics

Specific segments of the new-hire population participated differently within the four industry clusters of Figure 2. The demographics of new hires – such as gender and educational attainment – further illuminate trends during the recovery.

Figure 3 shows the difference between male and female new hires. Male new hires in the WFN region made on average \$1,021 more per month than their female counterparts. Income inequality



New Hire Trends (continued)

Figure 4. New Hires by Industry and Educational Attainment

	Less than High School	High School or Equivalent	Some College or Associate Degree	Bachelor's Degree or Higher
<b>Higher Earnings, Higher Growth</b>	31%	30%	30%	33%
Manufacturing	39%	35%	32%	27%
Construction	39%	36%	32%	22%
Professional Services	19%	26%	31%	46%
Information	3%	4%	4%	5%
<b>Higher Earning, Lower Growth</b>	12%	14%	14%	14%
Transportation & Warehousing	46%	41%	37%	27%
Wholesale Trade	23%	24%	24%	26%
Finance & Insurance	13%	16%	20%	28%
Real Estate	12%	12%	12%	12%
<b>Lower Earnings, Lower Growth</b>	37%	39%	40%	39%
Retail Trade	37%	39%	37%	34%
Health Care & Social Assistance	25%	30%	34%	38%
Accommodation & Food Services	30%	22%	19%	16%
Educational Services	3%	4%	5%	6%
Arts, Entertainment, & Recreation	4%	4%	5%	5%
<b>Lower Earnings, Higher Growth</b>	20%	17%	16%	14%
Administrative Support & Waste Management	83%	77%	76%	75%
Other Services	17%	23%	24%	25%
<i>Average New Hire Monthly Earnings <sup>†</sup></i>	\$2,027	\$2,248	\$2,428	\$3,258
<i>Annual Growth Rate Post-Recession <sup>*</sup></i>	10.3%	10.8%	9.1%	7.2%

Source: U.S. Census Bureau

between the genders is a well-documented phenomenon, and women maintain a higher part-time presence in the labor force and work fewer hours even when employed full-time, which further skews female earnings.<sup>2</sup> What is revealing about Figure 3 is that the trend holds true in each industry cluster. Female new hires make \$1,234 less than males in the “Higher Earnings, Higher Growth” cluster, and \$417 less than males in the “Lower Earnings, Lower Growth” cluster. Moreover, women are much less likely to participate in the higher earnings clusters than men. Nearly 48 percent of male new hires were employed in industries with above average earnings, compared to 23 percent of female new hires. The majority of women, 61.8 percent, were hired in “Low Earnings, Low Growth” industries. Educational attainment seemed to influence new-hire tendencies in a more nuanced fashion than gender during the post-recession expansion. There were minor differences between the highest level of education the worker had completed and proportions in which they were hired in the industry clusters. One may anticipate that new hires with at least a bachelor’s degree

would be significantly more likely to get a job in the above average wage clusters compared to their less educated cohorts. Instead, the distribution of new hires in the higher earnings clusters between those with less than a high school education and those with at least a bachelor’s was relatively marginal. However, the allocation of new hires within specific industries uncovers valuable distinctions among levels of education. Figure 4 shows that while new hires at every level of education participated in each cluster at approximately the same rate, the industries in which these groups were hired were distinct. Those with higher levels of education were more likely to start their career in white-collar industries, while new hires with less education were more likely to begin working in blue-collar industries. Regardless of industry affiliation, educational attainment is directly proportional to earnings. New hires with at least a bachelor’s degree made \$1,231 more per month than those without.

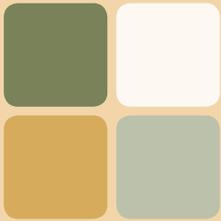
Conclusion

While there is always some level of hiring in an economy because of employee turnover, new-hire data tells a valuable

story about job growth. In times of economic expansion, businesses hire employees to meet consumer demand; when the economy contracts, firms freeze hiring in anticipation of less consumer spending. The last 10 years provided clear examples of the relationship between hiring practices and the business cycle. In this region, construction, professional services and manufacturing drove new-hire growth during the post-recession expansion. During that time, different segments of the new-hire population participated in the recovery in unique ways.

<sup>1</sup> Stable hires, other than all hires, are used to eliminate the job flipping always present in the economy. Using the stable-hire component helps to expose the underlying hiring trends.

<sup>2</sup> Average wages are calculated from unemployment insurance records, but those records only provide total wages paid to a worker, not their hourly pay rate. Hence, the wage records cannot distinguish between full- or part-time wages.



# Changes in Employment and Projections for the Future

TYSON SMITH, ECONOMIST

## Regional Overview

The Wasatch Front North (WFN) region experienced moderate year-over employment growth in the first quarter of 2013. Total nonfarm employment in the region increased 3.0 percent from 2012 to 2013, compared to the Utah average of 3.5 percent across the same period. Year-over growth of 3.4 percent in the goods-producing sector – mining, construction, and manufacturing – paralleled the 3.5 percent change in the state average.

However, expansion in the WFN service sector did not keep pace with Utah averages, increasing 2.9 percent in the region compared to 3.5 percent in the state. The service sector industries that grew the least in comparison to the state are information, government, and trade, transportation and utilities. Information and government decreased 5.2 percent and 0.9 percent, respectively; while trade, transportation and utilities increased 1.1 percent. The one bright spot for the WFN service sector is professional and business services which surged 11.3 percent from the first quarter of 2012, which is 5.3 percentage points more than average.

The three most noteworthy industries in the area are government, manufacturing and construction because they are export industries, or they represent areas of regional specialization. These key industries adjusted differently to the economic environment over the last year.

### Government:

The effects of the federal sequester reduced federal government employment, which

accounted for 100 percent of the lost jobs in the public sector over the last year. State and local governments, on the other hand, have seen revenues increase, and have been able to invest in additional staff. Federal government employment year-over fell by 704 employees in the WFN from 2012, whereas state and local employment rose by 269 workers.

### Manufacturing:

Manufacturing in the WFN continues to rebound from the recession, although at a slower pace than it had during the same period a year earlier. Manufacturing employment grew 6.6 percent from the first quarter of 2011 to the first quarter of 2012, and 2.5 percent from 2012 to 2013.

### Construction:

Building has picked up across Utah with employment increasing 7.1 percent from the first quarter of last year. The WFN also saw impressive employment totals in construction, adding 608 jobs since first quarter of 2012 – an improvement of 5.5 percent.

## Davis County

### Unemployment:

The unemployment rate in Davis County for June 2013 measured 4.6 percent, unchanged from the previous month. Davis County's unemployment rate was one-tenth of a percentage point below the state average of 4.7 percent, and has consistently measured at or slightly below the Utah rate since 2009. The national unemployment rate of 7.6 percent in June continued to be much higher than Davis

County and Utah. Since June of 2012, the unemployment rate in Davis County has fallen 0.8 percentage points.

### Employment:

In Davis County, total nonfarm employment in the first quarter of 2013 increased 2.5 percent year-over-year. In total, the county added 2,624 employees: 581 in the goods-producing sector and 2,043 in the service sector. Although the goods-producing sector represents a smaller share of the economy, it grew at a faster rate (3.4 percent) than the service sector (2.3 percent). Government employment, particularly the federal government, is crucial to the Davis County economy. In the first quarter of 2013, government employment equaled 24.7 percent of total nonfarm employment in the county, and nearly 50 percent of government employees worked for the federal government. Year-over growth in government employment shrank 1.0 percent in Davis County, while federal government employment contracted 3.2 percent.

The Department of Workforce Services (DWS) has projected short term employment growth for Davis County to equal 1.7 percent per year from 2012 to 2014. Average annual employment is estimated to be approximately 3,800 more in 2014 than it was in 2012. Federal government employment in the county is projected to move in the opposite direction. The downward trend resulting from the federal sequester will likely result in a 1.4 percent per year decrease



## Changes in Employment and Projections for the Future (continued)

in the number of federal employees, or about 350 less than the annual average in 2012 (Figure 5).

### Morgan County Unemployment:

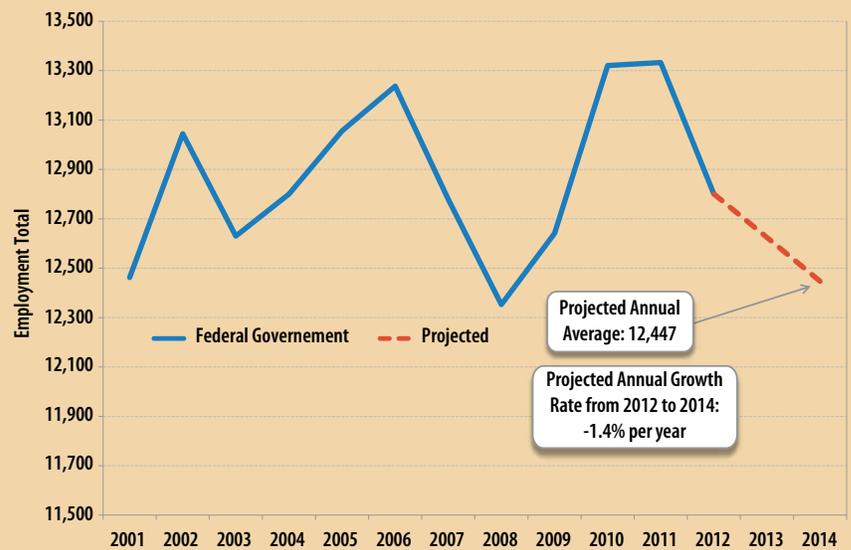
Morgan County's unemployment rate for June 2013 was 4.2 percent for the third consecutive month. The unemployment rate in Morgan County is the lowest of the three counties in the WFN, and was 0.5 percentage points below the state average. Similar to Davis County, Morgan has been at or below the Utah rate since 2009. Year-over-year, the unemployment rate in the county is down 1.2 percentage points.

### Employment:

Total nonfarm employment from the first quarter of 2012 to the first quarter of 2013 increased 10.2 percent, the second largest county-level employment jump in the state. Morgan is a less-populated county, so percentage changes can be magnified. All told, the county added 166 employees: 50 in the goods-producing sector and 116 in the service sector. In the county, the two largest employment industries are local government (24.3 percent) and construction (17.4 percent). Construction is a goods-producing industry and provides a proxy for economic health in the area. Over the past year, the construction industry has rebounded across the state, and in Morgan County the growth has proved remarkable. Employment jumped 17.6 percent year-over-year, adding 47 total employees.

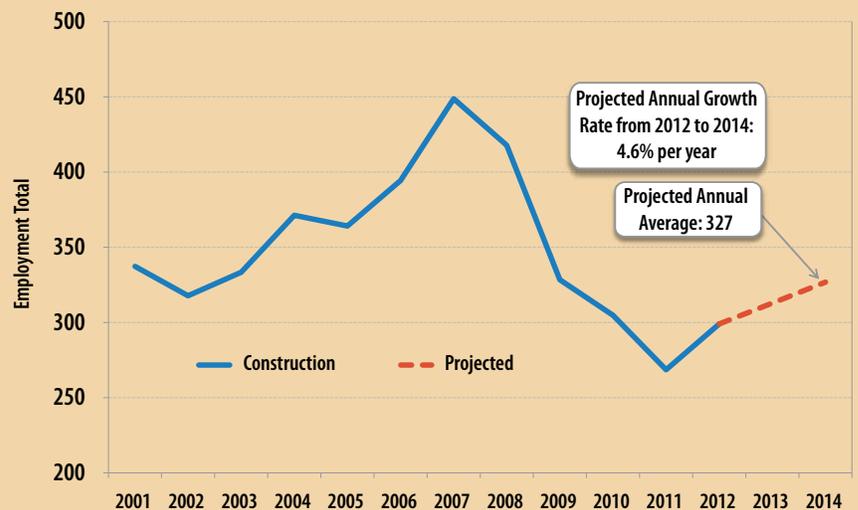
The small employment totals in counties like Morgan make projecting future growth difficult because historical fluctuations

Figure 5. Davis County Government Employment



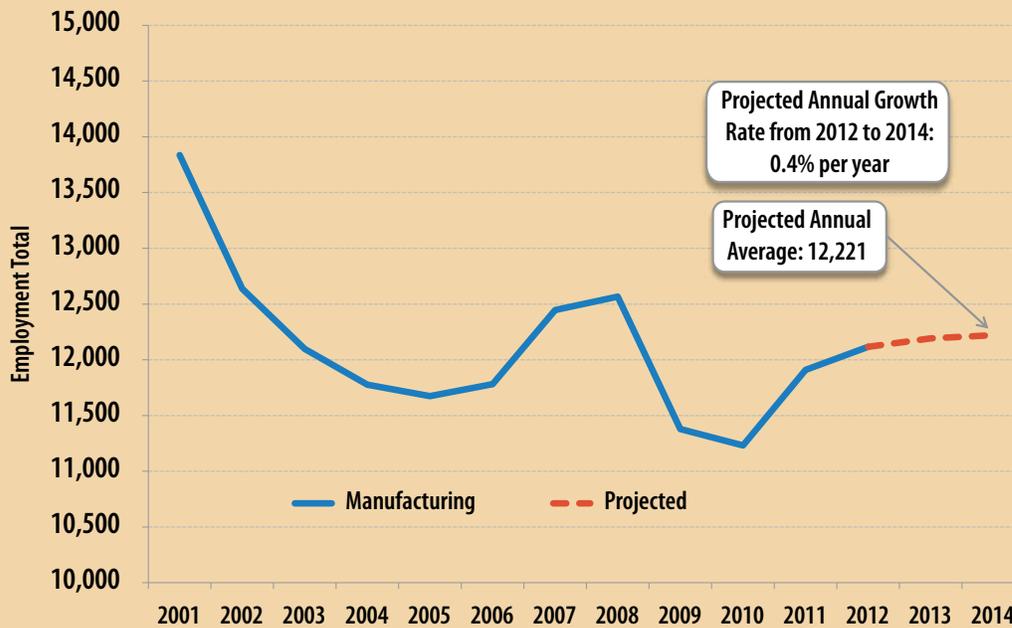
Source: Utah Department of Workforce Services

Figure 6. Morgan County Manufacturing Employment



Source: Utah Department of Workforce Services

Figure 7: Weber County Manufacturing Employment



Source: Utah Department of Workforce Services

as a percent of total employment can be dramatic. While Morgan was one of the fastest-growing counties from the first quarter of 2012 to the first quarter 2013, it was one of the slowest-growing counties in the same quarters from 2011 to 2012. Year-over growth rates conservatively projected from 2012 to 2014 register 3.3 percent per year. The Department of Workforce Services anticipates construction will still outpace the county average during that time (Figure 6).

## Weber County

### Unemployment:

The unemployment rate in Weber County came in at 5.4 percent in June 2013, unchanged from May. Weber County's unemployment rate measured nearly 1.0 percentage point above the state average of 4.7 percent. Weber

County's figure remained more than 2.0 percentage points below the national unemployment rate. Since June of 2012 the unemployment rate in Weber County has fallen 1.3 percentage points.

### Employment:

From the first quarter of 2012 to the first quarter of 2013, total nonfarm employment in Weber County grew 3.4 percent. The county added a total of 3,058 employees: 527 in the goods-producing sector and 2,531 in the service sector. The goods-producing sector (17.7 percent of total employment) and the service sector (82.3 percent) increased employment by 3.3 and 3.4 percent, respectively. Manufacturing is a prominent industry in Weber County. Manufacturing jobs represented 13.0 percent of total employment and 18.9 percent of total wages in the county. Since the first quarter of 2012, Weber County

manufacturing employment grew by 2.2 percent and wages by 3.5 percent.

Short-term employment projections estimate total nonfarm employment expansion in Weber County will be 3.6 percent per year from 2012 to 2014. Average annual employment in 2014 is expected to be approximately 98,400 if the relatively stable economic environment lasts. Manufacturing employment will likely continue to grow at a slower pace than the county average (Figure 7). Slowing global growth, combined with declining industry trends domestically, stunt the potential for considerable short term employment gains in manufacturing.



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# The Benefits of New Hire Registry

BY MELAUNI JENSEN, LMI ANALYST

All employers in the United States are required by federal law to report information about all newly hired employees to their designated state agency. In 1997, the Department of Workforce Services was given the responsibility of managing the New Hire Registry Act for Utah, where employers must report the information within 20 days of a new hire's first day. The primary purpose of this law was the result of the Personal Responsibility and Work Opportunity Reconciliation Act (PRWORA) of 1996, an all-inclusive bipartisan welfare reform system aimed at ending the federal entitlement to assistance, and whose main reform was the start of the Temporary Assistance for Needy Families (TANF) program. Both TANF and the New Hire's Registry were to be designed in such a way to promote work, responsibility and self-sufficiency in an effort to strengthen families.

You may wonder what reporting new hires has to do with child support reforms. Before 1997, when a parent was ordered to pay child support, this amount was taken out of the worker's paycheck by the employer through wage withholding orders. If a worker changed or found new employment, it could take months for the orders to follow to their new employer. Reporting new hire data provided the ability to track those non-custodial parents in a more timely fashion, thus reducing the lag of payments to the custodial parent. This ties in with the fixed work requirements under PRWORA that custodial parents receiving public assistance are to fulfill.

Aside from the immediate purposes stated above, the nature and scope of the data gathered provides a wealth of socio-economic information.

Because reporting includes demographic and geographic information as well as standard information about the employer reporting the new hire, new hire data can answer such questions as which industries are hiring the most workers and which occupations are growing. Analysts can track the hiring patterns of old and young workers and male and female new hires, all by various geographical groupings.

Since its legislation, the initiative has significantly improved child support payments and collections while decreasing the payment and reporting time lags of custodial parent workers moving from one employer to the next. In addition, the registry has helped to detect and prevent fraud in other assistance programs. Cases can be matched between the New Hire Registry and Unemployment Insurance, Food Stamps and other programs associated with TANF which are under the PRWORA provision. Cases can even be matched to other programs like Medicaid in the detection and prevention of overlooked benefits usage in multiple states.

The value of the Registry is diverse and cannot be overstated. Ultimately, the New Hire Registry has saved and continues to save taxpayer dollars by increasing the self-sufficiency of custodial parents, ensuring for more efficient payments and collections to child support and decreasing instances of fraud by recipients of various assistance programs within and throughout states.

Employers seeking more details on how to report new hire information can consult the DWS Employer's Handbook at: <https://jobs.utah.gov/UI/Employer/Public/Handbook/EmployerHandbook.aspx>