winter 2012 southeast

# localinsights

An economic and labor market analysis of the Southeast Utah Area

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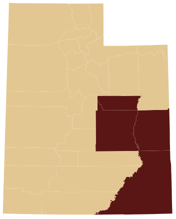
## in this issue:



# 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 rural areas? Do large employers dominate the landscape outside of the large metropolitan areas? 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? A study of employers by firm size yields answers to these and other questions. It is 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 mat nor 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

## A Look into Local Employment Cont.

question of how to evaluate those firms who have 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 Box Elder 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 Box Elder County despite the fact that Branch 6 employs only 15 individuals. To say that Bank X (represented in Box Elder 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 Castle Country, 82 percent of private sector employers are small firms, 13 percent are mid-size firms and 5 percent are large firms. While just 5 percent businesses are large firms, these 5 percent are responsible for one in five jobs in the Castle Country region. In the Southeast, 89 percent of private sector employers are small firms, 7 percent are medium firms and just fewer than 4 percent are large firms. Interestingly, whereas large private sector employers were responsible for 20 percent of employment in Castle Country (or 30 percent at the state level), large employers in the Southeast region are responsible for just 5 percent of total private sector employment. In the Southeast, the small employer definitely

**Figure 1: Total Private Sector Employment by Firm Size**

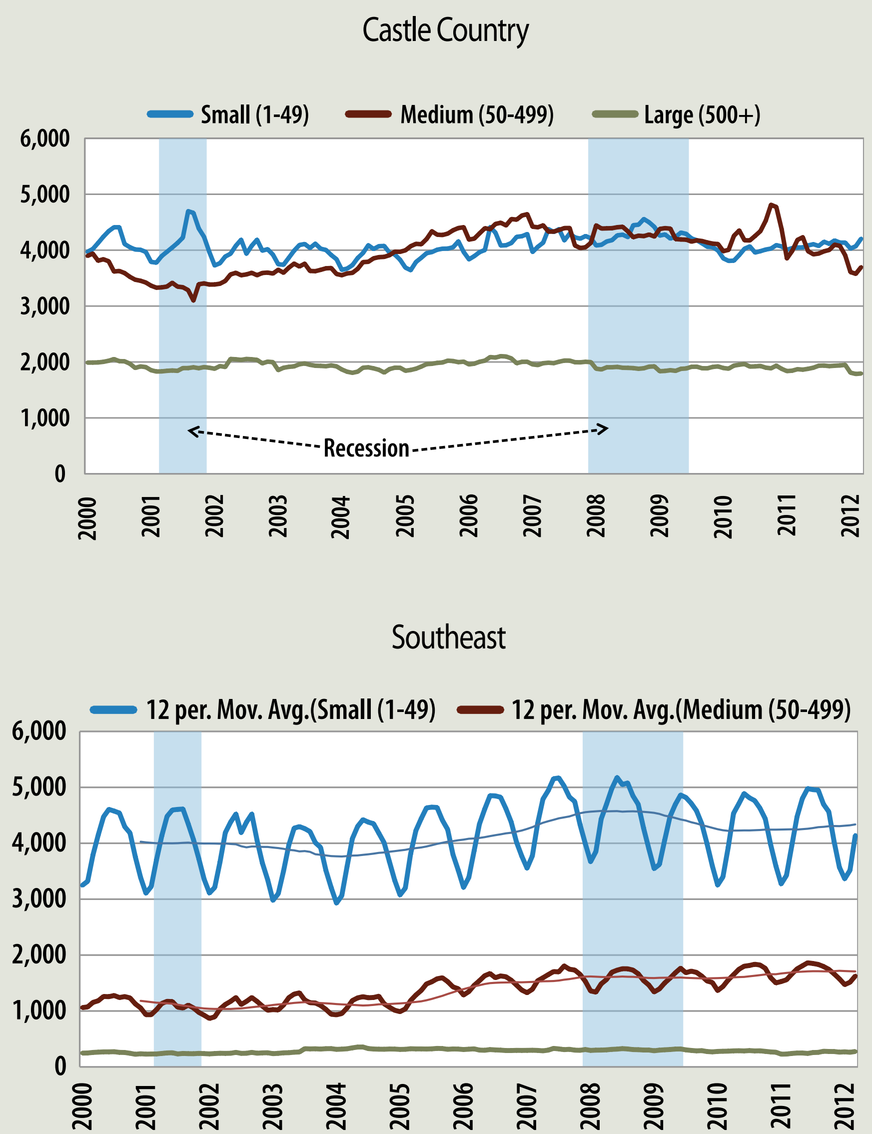
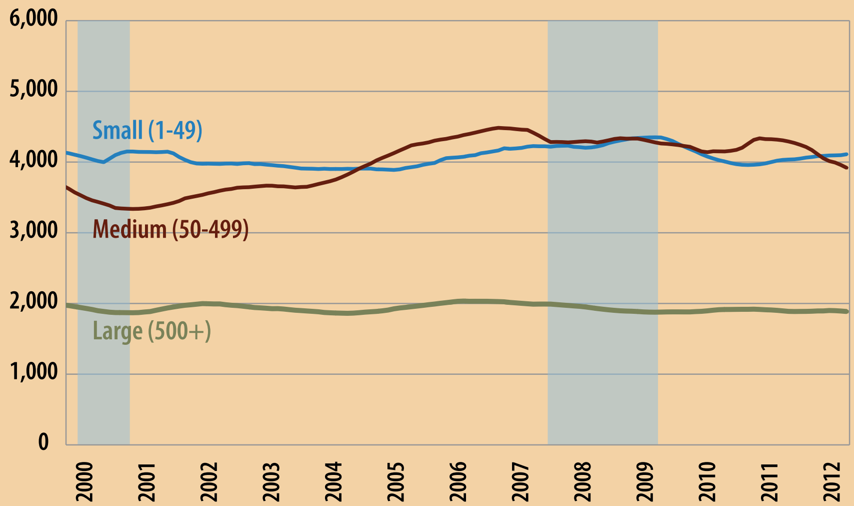


Figure 2: Total Private Sector Employment by Firm Size • Castle Country Twelve-Month Moving Average




dominates, employing over 70 percent of total private sector employees. In fact, firms that employ between 25 and 49 employees, on a 12-year average, make up just under half of all private sector employment in the Southeast.

Further inspection regarding employers by firm size over time yields further insight into the unique economies of these regions.

It would be reasonable to assume that the larger a firm is the more stable employment will be during a business cycle. In the aggregate, this is true in most cases. Figure 1 shows total employment by firm size in the Castle Country (Carbon and Emery counties) and Southeast (Grand and San Juan counties) economic service areas. These graphs demonstrate that larger firms (as a whole) are much less sensitive to business cycle shocks than small and medium firms. The data in these series date back through two distinct recessions (the 2001 recession and the 2008–09 recession, represented by the shaded regions in each graph). In both cases employment in larger firms seems relatively constant. However, employment in medium firms seemed to be more sensitive to the recessions, even more so for small firms. As firm size increases, so does the ability to weather economic storms. These graphs also show that not only are large firms less sensitive to economic shocks, but they are also less sensitive to seasonality. This is characterized by a smoothing out of trends as size classes increase (the Southeast graph in particular illustrates this phenomenon quite pointedly).

## Trends in the Castle Country Region

In general, small businesses dominate the Castle Country and Southeast ESAs. In both areas over the past decade, small firms have employed an average of around 4,000 individuals. There is more of a presence of medium businesses in Castle Country than in the Southeast. In fact, medium-sized firms are responsible for about the same number of jobs as small firms. These medium-sized firms are mostly coal mines and energy plants. By smoothing the actual data to account for seasonality provides a better view into the general trends of small and medium businesses in Castle Country [Figure 2].

A simple 12-month moving average reveals some interesting details. The trend from medium businesses over the past decade seems to lead the trend in small businesses. From late 2001 to 2007, employment within medium businesses trended upward. This direction appears to be lagged for the small business trend. Once the Great Recession hit in 2008, the upward trend in medium businesses peaked and began its recessionary trend downward, whereas the downward trend in small businesses occurred over one year later. Upon further inspection, this phenomenon seems reasonable. Where Castle Country's economy is driven by energy (coal in particular), many of the businesses in the region employ between 50 and 499 individuals. Smaller businesses, like trucking services and other smaller businesses are dependent on trends within the energy industry. If this assumption holds true, then it would be worth keeping an eye on employment in medium firms as an indicator for small businesses in the Castle Country region.

Whether or not trends in medium business directly inform small business trends in Castle Country, the overall trends provide a story worth telling: the overall trend for businesses, regardless of firm size, has been gradually downward for the last six years (despite a slight up and down in medium businesses in late 2010 to early 2011). If these last six years were any indication of the short run for the area, then it would be reasonable to assume a continuation of the gradual downward trend, especially if

## A Look into Local Employment Cont.

changes in medium businesses affect changes in small businesses.

### Trends in the Southeast Region

Whereas medium businesses account for roughly the same amount of employment in Castle Country, mostly small firms tell the story in the Southeast. Local businesses in the accommodations and food services industry lead the ESA's economy [Figure 3]. In fact, as Figure 4 illustrates, the medium employment trend in the leisure and hospitality industry has been downward since the Great Recession, while the employment trend within small businesses has been upward over the last two years. At any given time prior to 2008, medium leisure and hospitality businesses accounted for roughly one third of the employment that small businesses in the same industry provided. That proportion has been steadily decreasing since 2008.

An industry that has been seeing some measurable growth in the Southeast since 2005 is mining. What one might expect to see is that as this industry grows, so will the sizes of employing businesses in the mining industry. This, in effect, is what is happening. In our final illustration, the number of individuals employed by mid-sized firms has increased substantially, closing a gap of some 200 employees over the length of 11 years [Figure 4]. 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 3: Total Leisure & Hospitality Employment by Firm Size • Southeast**

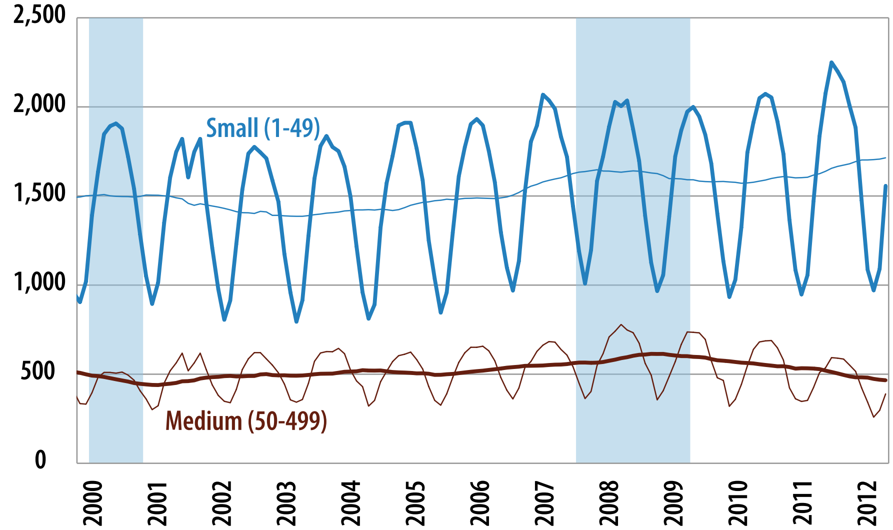
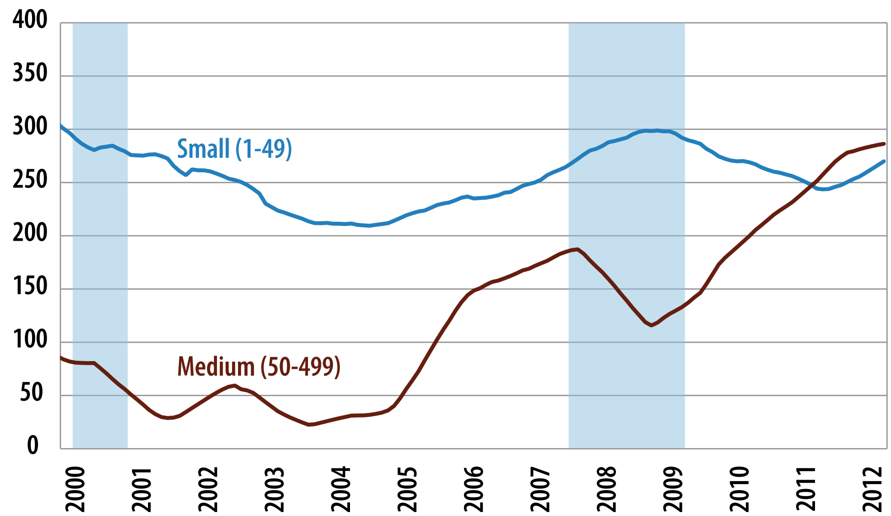



**Figure 4: Total Private Sector Mining Employment by Firm Size • Southeast**



# Economic Analysis

BY ERIC MARTINSON, ECONOMIST

## Castle Country

The overall economic picture in Castle Country during second quarter 2012 illustrates continuous difficulties in jumpstarting a meaningful recovery. As the market for oil and gas continues to drive increased employment within its own sectors, jobs based on coal mining look bleak at best, due largely to the pressure that low natural gas prices have been exerting on a weakened demand for coal.

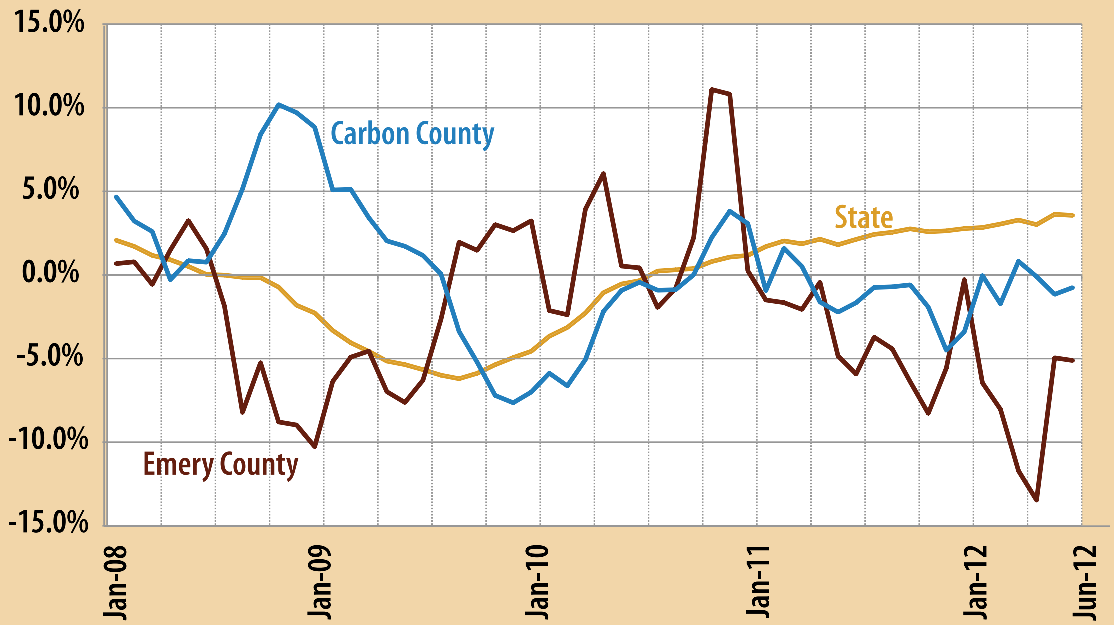
Though the gap between Carbon and Emery counties' unemployment rates (currently at 6.6 percent and 7.0 percent, respectively) and the state unemployment rate (currently at 5.4 percent) might demonstrate a gradually improving picture in the area, relative to the state, a better indicator as to the employment climate in Castle Country is the year-over-year change in total nonfarm employment. During the second quarter of 2012, total nonfarm employment in Castle Country was down 2.7 percent. This represents 359 fewer jobs on average than there were in the region during last year's second quarter.

## Carbon County

In Carbon County, year-over-year total nonfarm employment was down 0.7 percent, or 64 jobs. The services sector gained 62 jobs in the county, but this was offset by twice as many year-over job losses within the goods production sector. The mining industry continued to take some employment hits during the second quarter, leaving behind 14.5 percent fewer jobs compared to second quarter 2011.

Even a 12.5 percent increase in construction jobs was not enough to erase the deficit in jobs that mining had created. Manufacturing was also down 9 percent. Besides construction, other bright spots in the economy included professional business services, healthcare and social services, and public administration. To add to the difficult

**Figure 5: Year-Over-Year Total Nonfarm Employment Change Castle Country—January 2008–June 2012**



## Economic Analysis Cont.

picture in Carbon County, changes in permitted dwelling units and permit-authorized construction values were negative this year, at -78 percent and -68 percent, respectively. Gross taxable sales are also down by 6 percent year-to-date (January to July) compared to last year's sales over the same period.

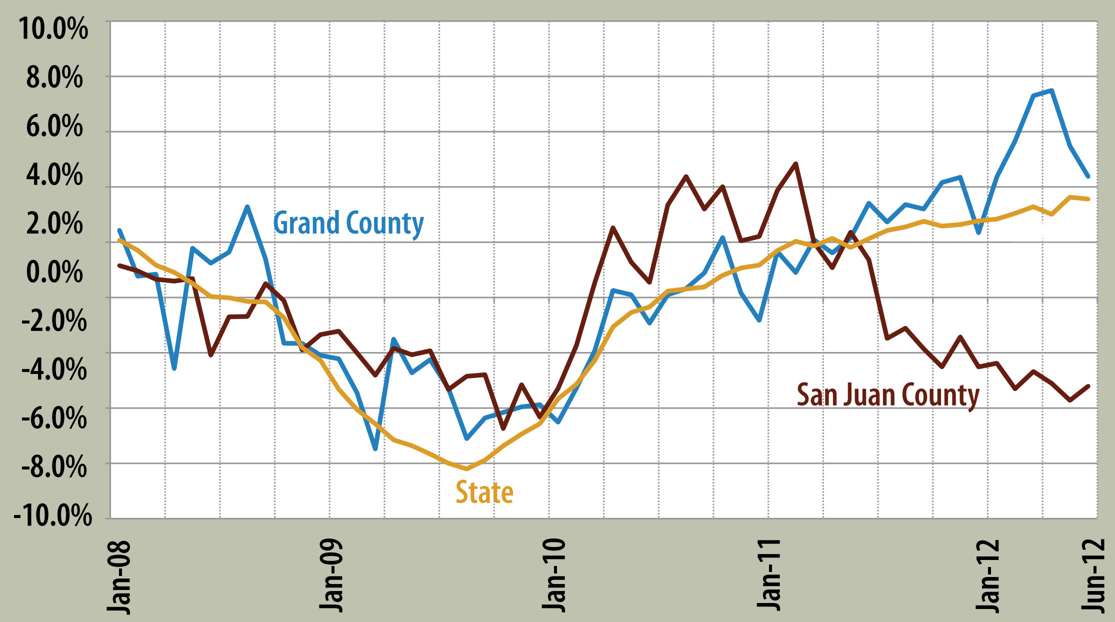
### Emery County

The story in Emery County is similar to that of Carbon County. Year-over total employment for the county was down 8.0 percent (295 jobs lost in second quarter 2012 compared to last year's second quarter). As mentioned in last quarter's Local Insights, what makes this number so dramatic is that some firms had employed spurts of contractors on relatively massive projects that were temporary in nature. Naturally, this skewed both employment and wages higher for last year and slightly for this year as well. For instance, these temporary contracting jobs can account for about one third of the year-over decrease in jobs in second quarter 2012. By taking these outliers out of the analysis, Emery County would not have performed quite as poorly on year-over comparisons. 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 31 percent year-over from April to June. 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 5 percent in June 2012. Figure 2 reveals the dramatic decline in Emery County mining jobs relative to the whole. 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 together.

Taxable sales in Emery County are down 34 percent in second quarter 2012 compared to last year's second quarter. While

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



permitted dwelling units were 13 percent lower, permit-authorized construction values were actually positive year-to-date (January to July 2012).

## Southeast

Although the seasonally adjusted unemployment rates are currently at 8.0 and 9.6 percent in Grand and San Juan Counties, respectively, rates higher than both state and national averages, a better indicator of employment in the Southeast region is total nonfarm employment. For both counties combined during the second quarter 2012, change in total nonfarm employment in the area was positive for Grand County (5.8 percent) and negative for San Juan County (-3.2 percent). For both counties combined, total nonfarm employment was up 1.6 percent, 150 jobs. Mining and leisure and hospitality were the industries most responsible for the overall second quarter growth in employment.

## Grand County

Compared to the second quarter of 2011, Grand County had a strong second quarter in 2012. This follows a strong first quarter performance in employment. Second quarter year-over employment change showed an increase of 5.8 percent, or 292 more jobs in March 2012 than 12 months before. The majority of these gains came from the services sector. The second quarter brought 162 more jobs to leisure and hospitality compared to last year's second quarter. Public administration, too, has been adding jobs throughout the second quarter. It picked up, on average, 69 more jobs year-over. Retail trade and mining also showed some employment growth during the second quarter.

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 July 2012, the most up-to-date data available, Grand County has increased their permitted dwelling units by 27 percent compared to the same period last year. Also, total permit-authorized construction values are 75 percent higher during the first half of 2012 compared to the same period last year. Finally, Grand County is continuing to sustain its year-over growth in gross taxable sales. During the second quarter of 2012, the county had increased sales on a year-over basis by 10 percent, the ninth consecutive quarter of positive year-over-year taxable sales growth.

## San Juan County

San Juan County remains one of the counties hit hardest by the recent recession. Total nonfarm employment year-over growth has been negative in San Juan County since July 2011. From April to June 2012, San Juan County's total employment dropped by 3.2 percent, or an average of 142 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 28 new second quarter jobs, though this was not enough to erase job losses within construction, which experienced a 16.5 percent decrease compared to second quarter 2011. Besides mining, another area of second quarter growth for San Juan County employment has been the educational, health and social services industry. Second quarter averaged 44 additional jobs, or 8.4 percent year-over-year second quarter employment gains.

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 8 to 12 months 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.

San Juan is one of the hardest hit counties in the recession, though mining as well as the educational, health and social services industries saw growth.

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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.*