

Breaking Down the Recession's Impact

The recession has hit the state's metropolitan regions somewhat harder than rural areas.

Recessions affect regions in different ways. The latest recession has heavily hit areas of the country with a high reliance on construction, manufacturing and finance. Regions with sig-

nificant energy sectors have been hit less hard. Given differences in industry makeup, there can be large variations in employment change between regions with rural or urban characteristics.

All Layoffs are Local

Between third quarter 2007 and third quarter 2009, Minnesota lost 143,000 jobs or 5.3 percent of total employment. These losses have been spread across nearly all of the state as indicated in Figure 1. Employment losses do not seem to follow any particular pattern. Nicollet County in southern Minnesota, with the highest employment loss (12.6 percent), is near counties with some of the lowest losses. Employment gains have been witnessed in nine counties, with Murray County in southwestern Minnesota having the highest gain of 4.7 percent over two years.

Losses or gains are not obviously segregated by rural or urban areas. Minnesota counties within a metropolitan statistical area or MSA (outlined in broken lines in Figure 1) display both some of the highest employment losses (Nicollet in the Mankato-North Mankato MSA) and highest employment gains (Clay County, with 0.4 percent job growth within the Fargo-Moorhead MSA). Differences become

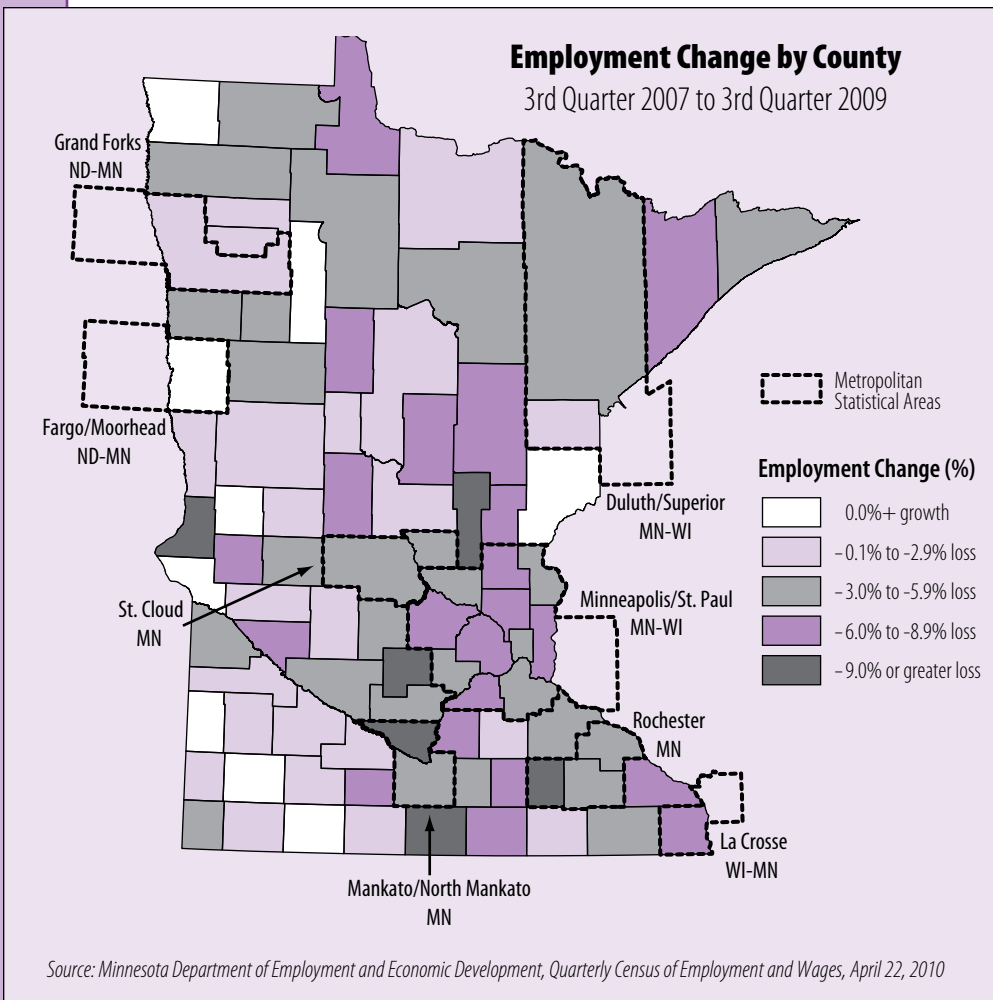


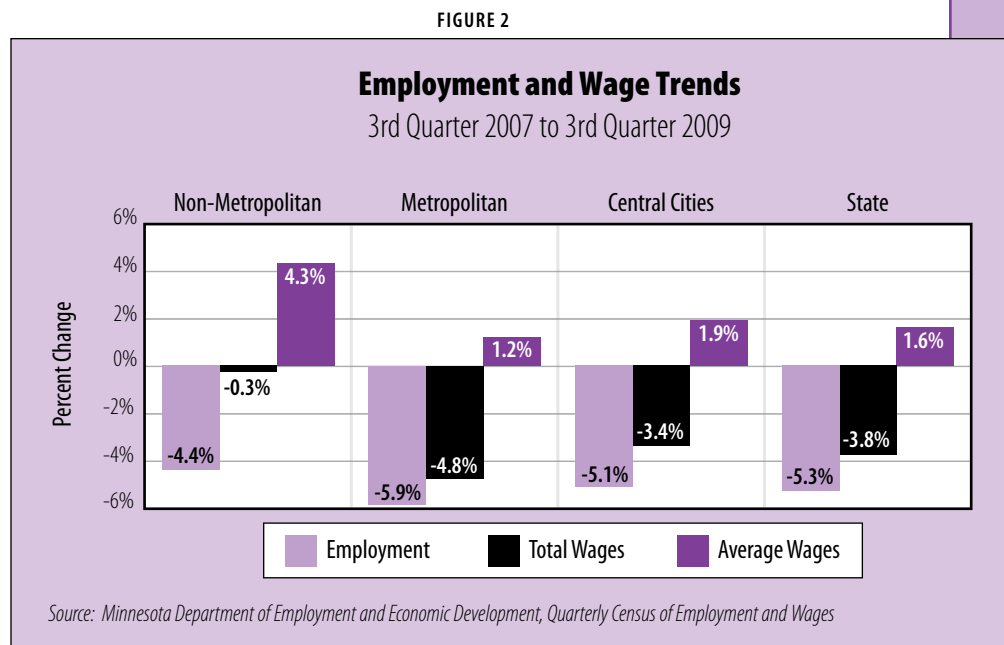
FIGURE 1

somewhat clearer, however, when counties are aggregated by metropolitan and non-metropolitan designations (see Figure 2).

Non-metropolitan counties (those that are not part of a metropolitan statistical area) lost about 22,800 jobs between third quarter 2007 and third quarter 2009—a decline of 4.4 percent. Metropolitan counties lost 124,000 jobs or 5.9 percent of total employment over the same period.

When the counties of the Minneapolis-St. Paul MSA are excluded from the analysis, metro areas in Greater Minnesota hold the middle ground with a decline of 4.8 percent or 18,800 jobs. Central cities (Minneapolis, Duluth, Rochester and other cities that constitute the core of metropolitan statistical areas, excluding suburbs and the balance of counties) have lost 5.1 percent of total employment. In previous recessions, these areas have witnessed losses higher than the state or metropolitan averages. Central cities typically have a smaller concentration of employment in manufacturing and construction—sectors that have lost significant numbers of jobs in this recession.

Overall, the state’s metropolitan regions have been hit somewhat harder than more rural areas. Though these regions account for 80 percent of statewide employ-



ment, they have experienced 84 percent of employment losses. Rural areas (which represent 20 percent of total state employment) account for the remaining 16 percent of employment losses.

As with employment, metropolitan areas are witnessing a more difficult situation in terms of wages. Total wages in metropolitan areas and central cities have declined 4.8 and 3.4 percent, respectively, over two years. Total wages have declined only 0.3 percent in non-metropolitan counties.

The difference becomes more acute when looking at the average wage per worker. Wages have increased 4.3 percent in non-metropolitan counties compared with 1.2 percent in metropolitan counties. These trends indicate that employment and wages are

decreasing in all parts of the state but that the average wage of workers still employed is rising. This increase in wages is particularly pronounced in the non-metropolitan areas. This might be due to a variety of factors. Workers in these parts of the state might be working more hours because their coworkers have been laid off. It might also be due to productivity enhancements as firms retool and require fewer workers—particularly in lower-skilled occupations that might employ higher numbers of workers but pay lower wages. Alternatively, a more simple explanation might be that the least senior and therefore lowest-paid workers are being laid off first.

Industry Mix

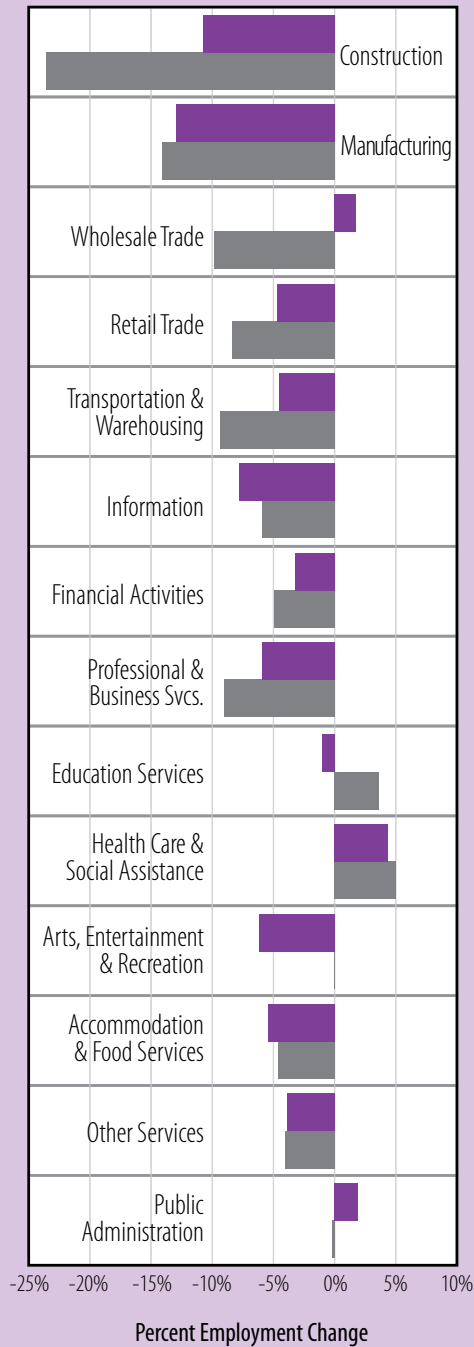
The relative economic health of regions is determined by their

FIGURE 3

Employment Change by Industry

4th Quarter 2007 to 4th Quarter 2009

■ Non Metro ■ Metro



Source: Minnesota Department of Employment and Economic Development Quarterly Census of Employment and Wages

industry makeup. Figure 3 shows the change in employment by industry for metropolitan and non-metropolitan counties. In most cases, employment losses are more intense for metropolitan counties. Employment losses are particularly drastic in construction, with metropolitan counties losing 23 percent of employment in that sector in two years. Some of the losses might be due to seasonal differences between 2007 and 2009. Counties in the vicinity of Minneapolis-St. Paul, St. Cloud and Rochester, however, witnessed particularly healthy rates of population and housing growth throughout the 1990s and 2000s. The end of this fast growth has led to acute job losses as well. The collapse in construction has resulted in a 30 percent decrease in employment in that sector statewide over the last three years.

Manufacturing losses are nearly even between metropolitan and non-metropolitan counties. In some industries, such as printing, fabricated metals and furniture manufacturing, losses are similar between metro and non-metro areas. Losses have been much more severe, however, in non-metropolitan areas in chemical manufacturing and computer and electronics manufacturing. This is probably due to heavy losses incurred in ethanol production (chemical manufacturing) and a lower level of employment in medical devices in

Greater Minnesota—an industry that has buoyed up computer and electronics employment in metropolitan areas. Metropolitan regions have incurred heavier losses in plastic and rubber product manufacturing and machinery manufacturing. Food manufacturing has remained relatively strong in Greater Minnesota as well. Wholesale trade is healthier in non-metropolitan areas due to the strength of non-durable goods wholesale, which often involves trade in agricultural commodities and food products.

On the service-side of the economy, non-metropolitan regions have witnessed higher job losses in information; arts, entertainment and recreation; and accommodation and food services. Publishing (information) losses have been heavier in Greater Minnesota. Higher losses in entertainment and accommodation might be due in part to weakness in the tourism sector.

Metropolitan regions have seen significantly heavier losses in retail trade; transportation and warehousing; finance; and professional and business services. Finance along with professional and business services are particularly concentrated in metropolitan areas. Heavy losses in these industries have likely affected the diminished wages noted in Figure 2.

Education, health care and social

assistance have been growing in metropolitan areas. Education gains have taken place largely in post-secondary institutions, which have seen an increase in business due to retraining of dislocated workers. Likewise, social assistance employment has increased with rising demand.

Expanding Unemployment

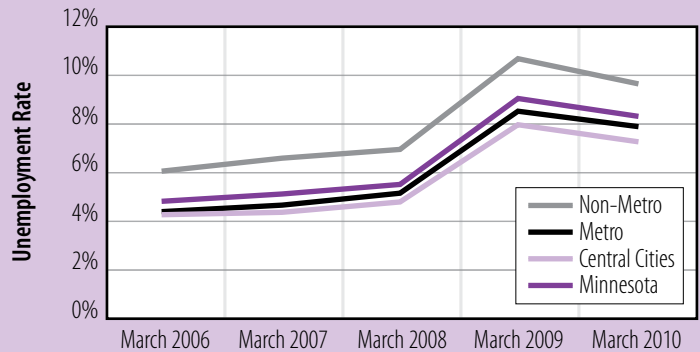
Employment losses have an obvious impact on the number of unemployed. Unemployment is significantly higher in non-metropolitan parts of the state (see Figure 4). In March 2010, the unemployment rate was 9.5 percent in Greater Minnesota compared with 7.8 percent in the metropolitan areas of the state. It should also be noted that many parts of Greater Minnesota have historically higher levels of unemployment than the state as a whole. The recession has created a statewide increase in the number of unemployed. Statewide unemployment (non-seasonally adjusted) was 8.2 percent in March 2010, representing more than 243,000 workers. This is up from a rate of 4.7 percent in March 2006. The overall deterioration has not affected any general area more intensely than the other. In metropolitan and non-metropolitan counties, the unemployment rate is up 3.5 percentage points over the last four years—the same increase as the state as a whole. Central cit-

ies have witnessed a lower increase of 3.1 percentage points.

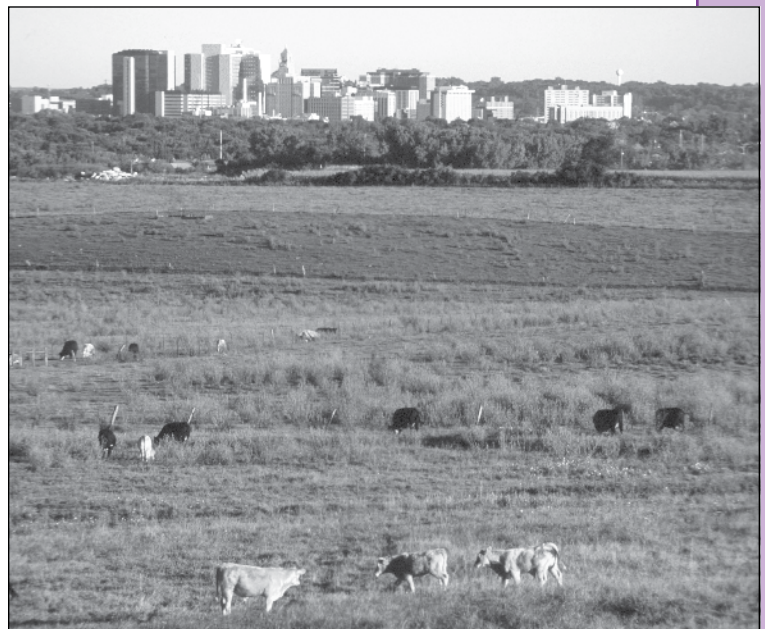
The Dearth of Opportunity

There were 26,000 job openings in Minnesota during fourth quarter 2009. Of these vacancies, about 15,000 were in the Twin Cities metropolitan area, while 11,000 (42 percent of total) were in Greater Minnesota. Job vacancy statistics cannot be broken down by metropolitan areas outside of the seven-county Twin Cities metropolitan area. Overall, the number of statewide job vacancies dropped 55 percent between the fourth quarter of 2006 and the fourth quarter of 2009. As with employment, the decrease in job vacancies has affected the metropolitan area more intensely than Greater Minnesota. The metro has lost 58 percent of its vacancies in four years compared with 45 percent in Greater Minnesota.

Unemployment – March 2006 to 2010



Source: Minnesota Department of Employment and Economic Development, Local Area Unemployment Statistics



Rural Olmsted County with the city of Rochester in the background.

As employment and vacancies have decreased and unemployment has increased, the gap between job seekers and job openings has widened (see Table 1). In fourth quarter 2006, there were two unemployed people for every job opening in the state. Today that ratio stands at 8.2 unemployed for every job opening.

TABLE 1

Job Vacancies by Region

4th Quarter 2006 and 4th Quarter 2009

	Unemployed		Unemployed	
	Job Vacancies	to Job Ratio	Job Vacancies	to Job Ratio
	Q4, 2006	Q4, 2006	Q4, 2009	Q4, 2009
Northwest	735	3.0	383	7.4
Headwaters	490	4.4	312	10.6
Arrowhead	2,787	3.0	1,346	10.3
West Central	1,363	3.4	984	7.0
North Central	1,149	3.8	514	15.3
Southwest Central	1,311	2.0	621	7.9
Upper Minnesota Valley	374	2.5	392	39.6
East Central	695	6.4	282	29.7
Central	3,926	2.2	1,677	10.2
Southwest	1,372	1.6	640	5.3
South Central	2,452	2.0	1,234	7.3
Southeast	3,101	3.2	2,464	7.3
Metro	35,974	1.6	15,037	7.5
Greater Minnesota	19,755	2.8	10,849	10.2
Statewide	55,736	2.0	25,885	8.2

Source: Minnesota Department of Employment and Economic Development, Minnesota Job Vacancy Survey

The gap between job opportunities and the number of unemployed is much more drastic in Greater Minnesota. While there are 7.5 unemployed per job opening in the seven-county Metro Region, there are 10.2 unemployed per opening in Greater Minnesota. These gaps are particularly high in the Upper Minnesota Valley (39.6 unemployed per opening), East Central (29.7 unemployed per opening) and North Central (15.3 unemployed per opening) regions.

These ratios have increased substantially since 2006. Upper Minnesota Valley represents

the worst-case scenario of going from one of the lowest unemployment ratios to the highest —up 15.8 times over three years. Some areas such as the Northwest, West Central and Southwest regions have experienced workforce shortages in recent years due to a slow-growing and aging population. As a result, they have witnessed relatively small increases in the unemployed-to-jobs ratio.

Conclusion

Metropolitan and non-metropolitan areas both face employment issues, but their challenges are somewhat different. Non-metropolitan regions, for instance, lack dense labor markets. When a firm lays off workers in a metropolitan area, those workers might find work in the same area at another firm doing similar work or might be able to do a related job in an entirely new industry. Rural areas often lack this density of opportunity. Dislocated workers might need to commute long distances to find similar work or need to relocate entirely. As

housing markets have collapsed, so has worker mobility. Potential increases in energy prices might limit that mobility even further.

Metropolitan and non-metropolitan areas share the issue of a workforce that is aging and could even shrink in the future. Rural areas lead that trend. Counties in western Minnesota have seen populations shrink and workforce shortages emerge. Even in good times, the younger population often sees opportunities in other places, taking newly minted skills to metropolitan areas. High ratios of unemployed-to-job opportunities—no matter how temporary—only serve to increase that exodus of skills.

Minnesota is just beginning to emerge from the recession. Employment in recent months has swung between losses and gains, with the economy netting an increase of 14,000 jobs between December 2009 and March 2010. Every recession is different in terms of the industries and regions that it impacts. The post-recessionary economy will be different from the one in the years prior to the recession. New industries will add new jobs and old industries will add jobs with new skill requirements. Regions with dynamic economies, where new product and service innovations are created and workers with skills move freely, will benefit most in this uncertain environment. **T**