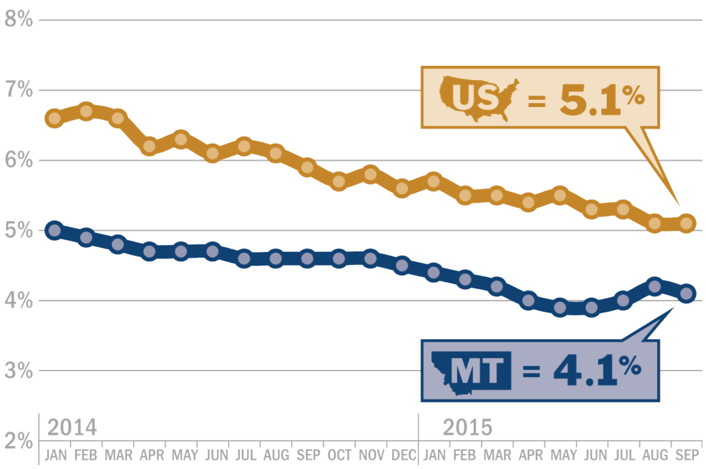
MONTANA Economy at a Glance

SEPTEMBER 2015

UNEMPLOYMENT RATE

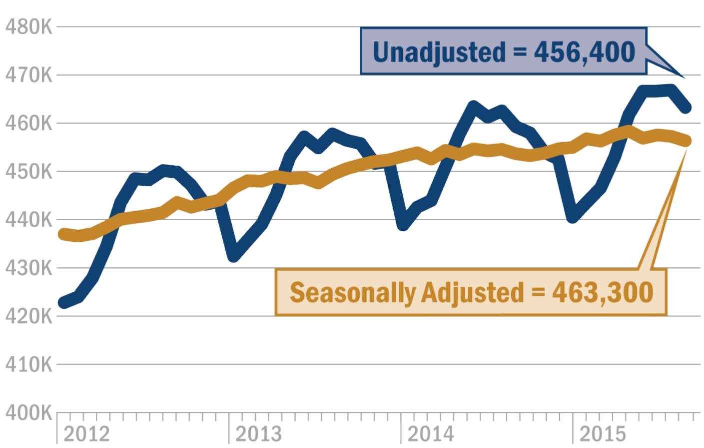
Seasonally Adjusted



Montana's seasonally-adjusted unemployment rate for August 2015 decreased slightly over the month, moving to 4.1% from August's revised rate of 4.2%. Meanwhile, the national unemployment rate held steady at to 5.1% over the month.

NON-FARM EMPLOYMENT

In Thousands



EMPLOYMENT BY INDUSTRY

In Thousands

INDUSTRY EMPLOYMENT	AUG 2015 (PRELIM)	JULY 2015	NET CHANGE	% CHANGE
Total Non-Agricultural	456.4	457.3	-0.9	-0.2%
Natural Resources & Mining	8.7	8.9	-0.2	-2.2%
Construction	23.7	24.8	-1.1	-4.4%
Manufacturing	18.9	18.7	0.2	1.1%
Trade, Transportation, & Utilities	95.6	94.8	0.8	0.8%
Information	6.3	6.2	0.1	1.6%
Financial Activities	26.9	27.1	-0.2	-0.7%
Professional & Business Services	40.4	40.3	0.1	0.2%
Education & Health Services	70.4	70.9	-0.5	-0.7%
Leisure & Hospitality	59.5	59.6	-0.1	-0.2%
Other Services	18.2	18.3	-0.1	-0.5%
Total Government	87.8	87.7	0.1	0.1%

Note: Excludes self-employed and agricultural employment

Montana's seasonally-adjusted, non-agricultural payroll employment decreased by 900 jobs (-0.2%) over the month, for a total of 456,400 in September 2015. The largest gain occurred in trade, transportation, and utilities, with 800 added jobs (+0.8%). The largest loss occurred in construction, with 1,100 fewer jobs (-4.4%) over the month.

Montana Department of LABOR & INDUSTRY

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Hiring Workers in the Labor Shortage

by Christopher Bradley, Economist

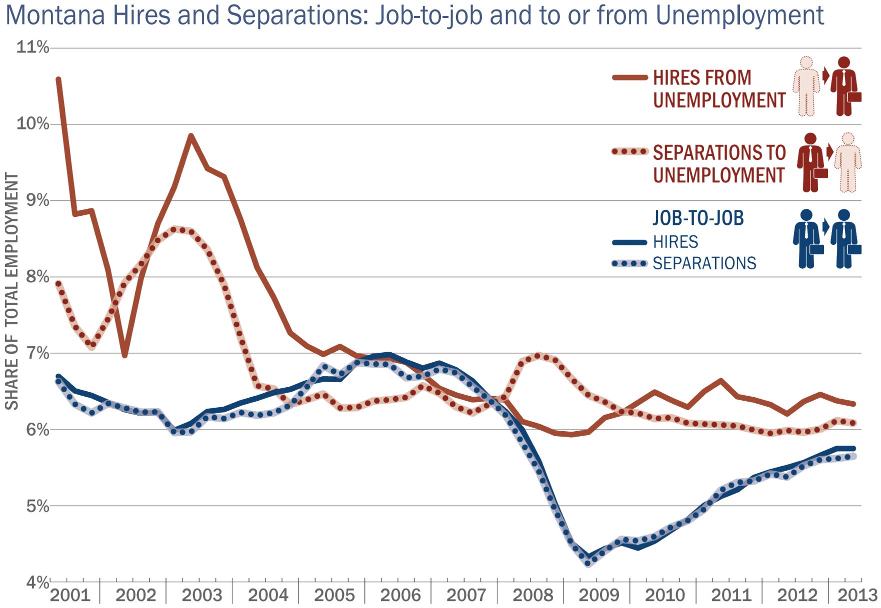
Over the next decade, Montana's labor force is not expected to grow very quickly. Retiring baby boomers coupled with a small population of working-age youth is leading to a tight labor market in Montana. As the labor market tightens, employers will find it more difficult to attract and retain workers, while workers will benefit from employers competing for their services. The impact of the worker shortage on employers and workers will depend on their ability to adjust to the new environment. As the pool of unemployed workers shrinks, employers will need the ability to attract workers away from other jobs or to train new workers with limited experience. Workers will need mobility to take advantage of higher wage jobs. This EAG will look at job turnover in Montana and the possible impacts of the worker shortage on employers and workers.

JOB TURNOVER AND THE ECONOMY

When Montana's economy strengthened after the recession, turnover rates rose because workers were feeling confident enough in job and wage growth to risk switching jobs. Higher rates of job switching can have negative impacts on employers in the form of lost work time and costs from recruiting, hiring, and training new employees. However, some turnover is unavoidable (such as retirements) and healthy turnover rates help to find new employees quickly. Even layoffs, which are difficult for workers and employers alike, are an essential part of labor moving out of less productive segments of the economy and improving labor efficiency. In times when labor is in short supply, many employers benefit from the labor that becomes available from these events.

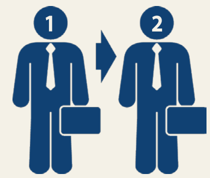
Figure 1

Montana Hires and Separations: Job-to-job and to or from Unemployment



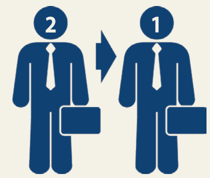
JOB-TO-JOB VS PERSISTENT UNEMPLOYMENT

JOB-TO-JOB HIRE



A currently or recently employed worker gets a new job with no period of unemployment.

JOB-TO-JOB SEPARATION

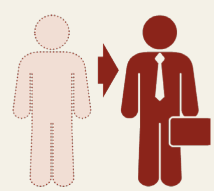


A worker leaves a job with no period of unemployment before taking a new job.

Job-to-job hires and separations are equal because any person who leaves a job and starts a new one immediately counts as both a hire and separation.

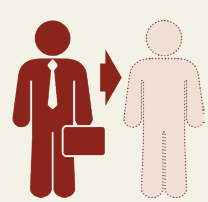
A person who takes a two week break when switching to the new employer would be a job-to-job hire when the new job starts and a job-to-job separation when the old job ends.

HIRE FROM UNEMPLOYMENT



A person who hasn't worked for at least a full quarter before starting a new job.

SEPARATION TO UNEMPLOYMENT



A person loses a job, and does not start a new one for at least a full quarter.

Source: U.S. Census Bureau, LEHD Program, Job-to-Job Flows 2014 Q4 Release

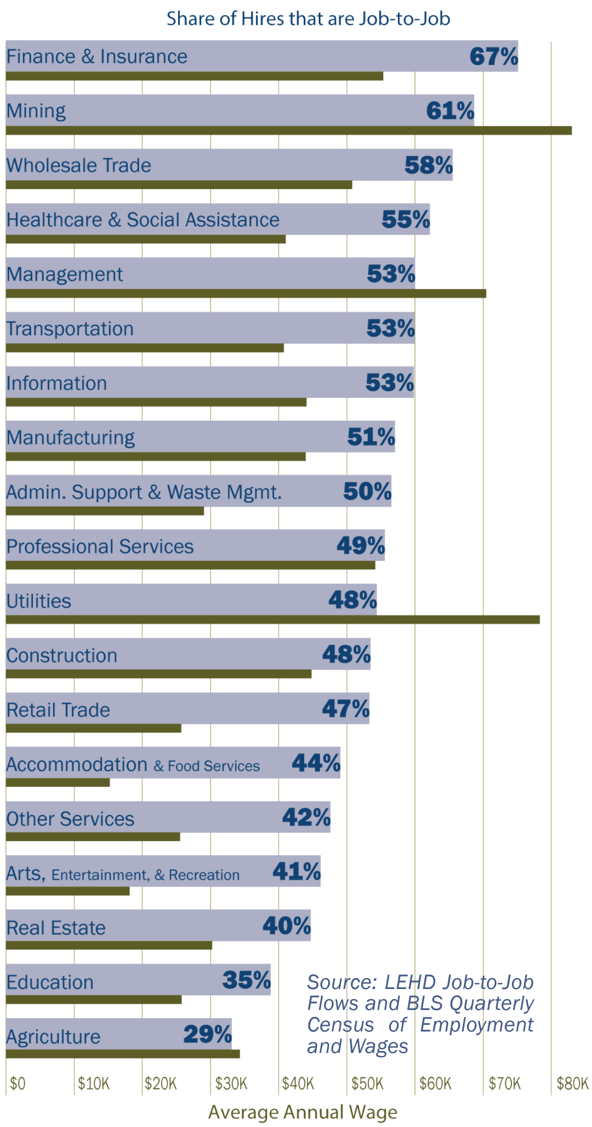
Employers fill open positions with either unemployed people seeking work or employed people willing to take a new job for its higher wages, better location, or even better work environment. To analyze job turnover based on those two possibilities, this article uses the U.S. Census Bureau's Quarterly Workforce Indicators (QWI) job-to-job flows data. The QWI job-to-job flows dataset measures these two types of turnover. Hires and separations are classified as job-to-job (meaning the worker moved into a new job without a period of unemployment) or as to/from persistent unemployment, where the worker was unemployed for more than a quarter between jobs.

Figure 1 illustrates Montana's rates of job-to-job hires and separations as well as hires and separations to and from unemployment from 2001 to the most recent quarter of data available of the second quarter of 2013. Montana's turnover rates have improved from recessionary lows. Job-to-job turnover has increased while turnover to and from unemployment remained steady. Job losses from the recession created a large pool of unemployed workers who were steadily rehired from unemployment, reducing the need to hire already employed people for years after the recession. However, as the economy improved, the job-to-job rate has risen. As of 2013, the rate of job-to-job and unemployment hires are almost equal. This trend suggests there will be an increased reliance on job-to-job hires as the availability of unemployed workers declines.

Figure 2

Job-to-job Hires and Wages by Industry

4TH QTR. 2012 - 3RD QTR. 2013



JOB TURNOVER VARIES BY INDUSTRY

The higher share of job-to-job hires implies employers are increasingly sourcing their workers from the pool of the currently employed. Some industries already hire job-to-job more frequently than others. **Figure 2** provides the share of hires and separations that are job-to-job by industry, along with average wages of each industry.

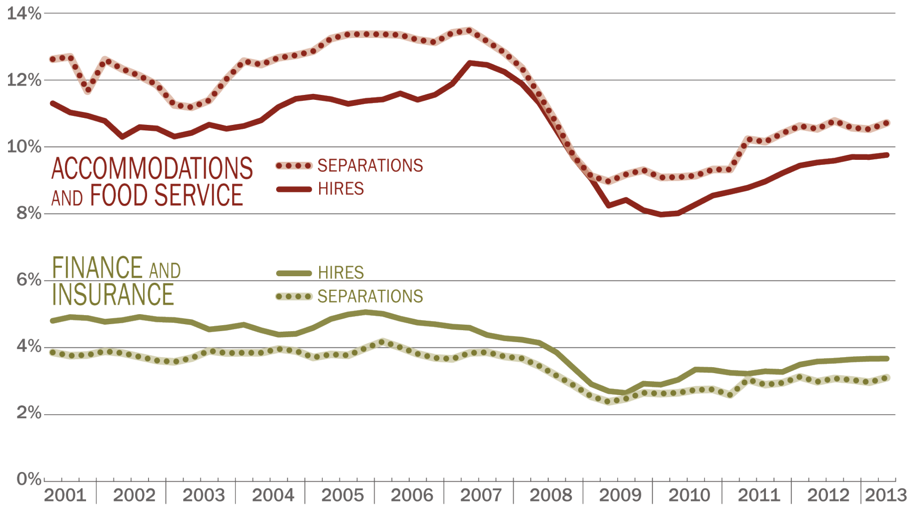
Job-to-job hires make up less than half of all hires in most industries. Going against the norm, more than half of the 2013 hires were job-to-job in the Mining, Finance and Insurance, and Healthcare industries. Availability of labor can influence the share of job-to-job hires because employers must make hires from currently employed workers when there are few unemployed workers available. This effect is seen in the Mining and Healthcare industries that are already dealing with worker shortages. However, these industries have historically tended to hire above average shares of job-to-job hires due to their higher pay and ability to attract already employed workers seeking better wages. The Mining, Finance and Insurance, and Healthcare industries all pay wages above the state average. In comparison, lower-paying industries (such as the Agriculture, Accommodations and Food Service, and Administrative and Waste Services) use less job-to-job hires.

Some industries not only tend to hire already employed workers, but also have more job-to-job hires than separations. A higher level of job-to-job hires than separations within an industry implies that there is a net inflow of employed workers into that industry from others. Again, high pay is a reason an industry attracts workers, but job stability contributes as well. **Figure 3** demonstrates this by comparing the job-to-job hires and separations for both the Finance and Insurance industry and the Accommodations and Food Service industry.

Figure 3 shows how an industry such as Finance and Insurance has consistently had a net inflow of workers hired from other industries, while the Accommodations and Food Service industry has had a net outflow of workers leaving for jobs outside the industry. Even during the recession, the Finance and Insurance industry tended to hire people who were employed in other industries. Additionally, turnover in Finance and Insurance is lower than in Accommodations and Food Service.

Figure 3

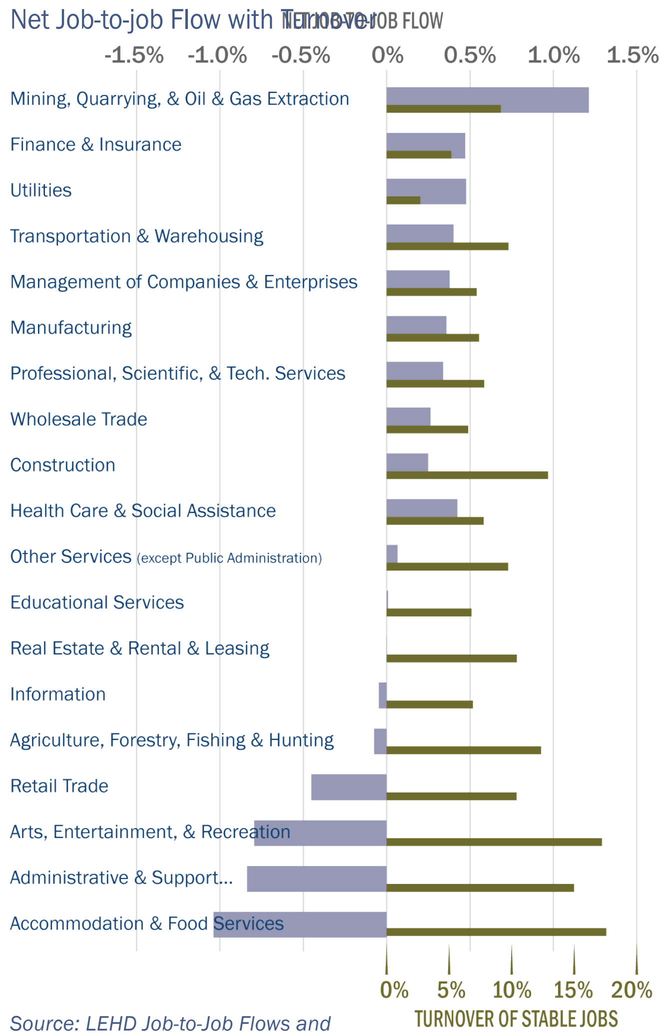
Positive and Negative Job-to-job Flows



Lower turnover suggests more job stability, which combined with higher wages, allows employers in the Finance and Insurance industry to attract workers from lower-paying and more volatile industries. Across all industries, higher turnover rates are associated with low or negative net job-to-job flows, as seen in **Figure 4**. In a worker shortage, industries with net negative job-to-job flows will need to make strides to provide more competitive wages and job stability so workers don't leave for better opportunities elsewhere.

Figure 4

Net Job-to-job Flow with Turnover



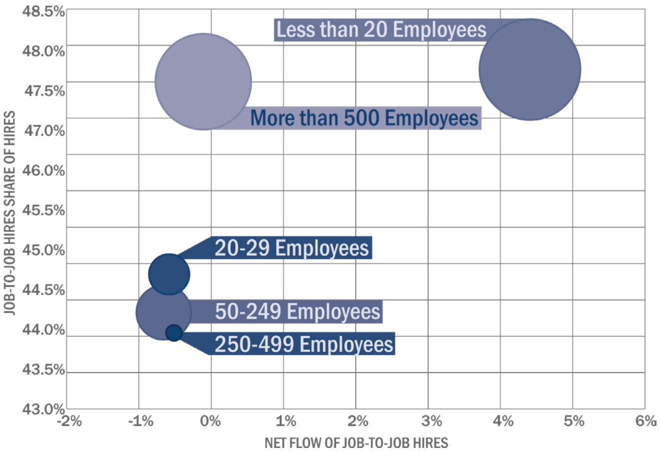
Source: LEHD Job-to-Job Flows and Quarterly Workforce Indicators

A firm's hiring practices also depends on their ability to train workers internally. The size of a firm can indicate internal staffing and training capabilities. If a large firm loses an experienced employee, the position can be filled with lower level staff, while the lower positions that require less experience or training are more easily replaced. Small firms, on the other hand, lack some of the ability to quickly replace experienced staff internally. Additionally, large firms can have enough demand for workers that they benefit from commiting resources to training programs or relationships with educational institutions. For example, Montana's hospitals have worked to coordinate apprenticeships to train future employees. **Figure 5** contains the net flow and share of job-to-job hires for firms based on their size, with the bubble representing the share of Montana employment each firm size contains.

Small firms with less than twenty employees have the highest share of job-to-job hires, reflecting small firms' hiring of workers with training and experience acquired in other places. Interestingly, small firms have a high net inflow of job-to-job hires in spite of their lower average wages than larger firms.

Figure 5

Job-to-job Hires: Net Flow and Share of Hires



Source: LEHD Job-to-Job Flows

Small firms are able to attract workers with other benefits that workers may value over high pay, such as a more intimate work environments or better job flexibility. All other firm sizes have a net outflow of job-to-job hires suggesting that the experience acquired in larger firms is eventually used by smaller firms. In the upcoming worker shortage, it may become difficult for small companies to find labor because they rely on job-to-job hires despite having lower wages. Larger companies will have a smaller pool of unemployed workers to hire and train and find ways to incentivize their experienced workers to stay.

JOB TURNOVER ALSO VARIES ACROSS WORKERS

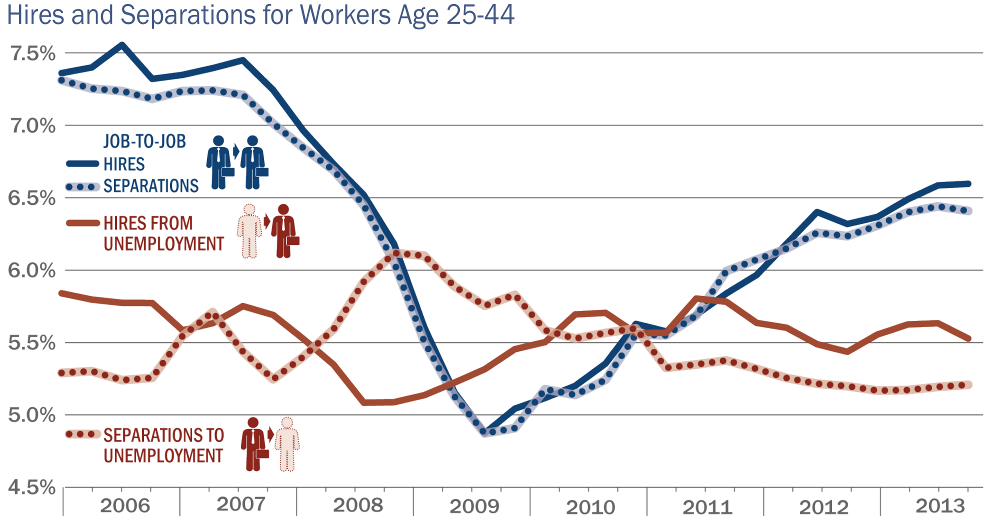
While a worker shortage makes it more difficult for employers to find workers, workers stand to benefit from the increased employment opportunities and wage growth associated with a worker shortage. Prime working age people, from age 25 to 44, have seen large increases in job-to-job turnover rates, surpassing the rate of hires from unemployment. Additionally, separations to unemployment are continually decreasing which suggests an increase in demand for workers. Seen in **Figure 6**, this trend will be accompanied with wage improvements for this segment of workers as well. The high demand for workers in the prime working age group will spill over and increase demand and wages for other age groups as well. For example, workers under age 25 have seen increasing rates of job-to-job hires as well, suggesting people who are working instead of or while seeking postsecondary education are seeing wage increases. Mobility and occupational flexibility will allow workers to make the most of the opportunities the worker shortage will create.

JOB-TO-JOB FLOWS AND THE WORKER SHORTAGE

As the worker shortage necessitates even higher rates of job-to-job hires, employers will adjust to new conditions under which hiring will occur. Some employers, such as those in high paying industries with low turnover, will continue to find workers. Others, however, will need to raise wages, improve worker training, or provide other incentives that make people want to work for them. In particular, finding innovative ways to train workers into in-demand jobs such as through collaborations with educational institutions and use of training assistance programs like the Incumbent Worker Training program, will have a large impact on an employer's ability to adequately staff itself throughout the worker shortage.

Figure 6

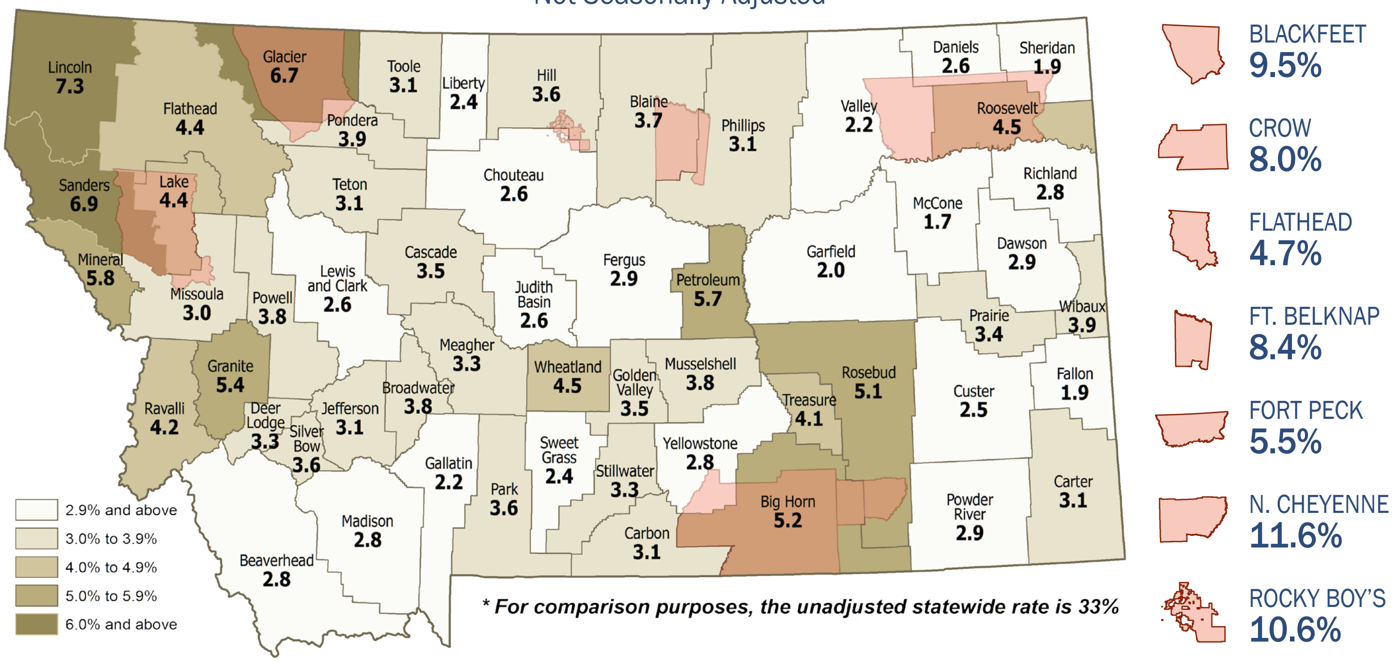
Hires and Separations for Workers Age 25-44



Source: LEHD Job-to-Job Flows

COUNTY AND RESERVATION UNEMPLOYMENT RATES – SEPTEMBER 2015

Not Seasonally Adjusted



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