



Earning Their Lessons

A Look at Youth Employment in Montana

by Barbara Wagner, Chief Economist

Paper boy, balloon salesperson, sandwich artist, ice cream scooper, or lawn mower: many of us look back on our first jobs sentimentally, wistful for the low-stress, responsibility-free income, yet thankful we have moved on to better-paying, more interesting work. Parents encourage their teens to find jobs, hoping to instill a good work ethic, while transitioning them into adulthood with a first-hand lesson in how many work hours it takes to buy gas and basketball shoes. Plus, a few months in a minimum wage job will do wonders for a teenager's motivation to go to college.

From an economic perspective, teenagers provide a cost-effective labor supply for seasonal and part-time work. For the teenagers themselves, the benefits of employment go far beyond the paychecks they bring home. Research has found that part-time work during high school is associated with a better chance of finding a job after graduation, longer spells of employment throughout a career, and higher lifetime incomes. Entry-level jobs are critical to developing good work habits, such as showing up on time, resolving conflict with bosses and co-workers, providing good customer service, and balancing priorities. Learning these skills early can give young workers a leg up in the economy and provide businesses with a more prepared workforce. Part-time workers also tend to have better educational outcomes in both high school and college.

However, jobs among teenagers may be becoming a thing of the past, with fewer and fewer teenagers in the labor market. The U.S. labor force participation rate for

teenagers has been in a decline for over 30 years, with now only about one-third of teens employed or looking for work. Researchers have attributed the declining teen labor force participation rate to greater educational attainment for teenagers, including the expansion of advanced placement classes that allow students to start college early.¹ The U.S. economy has become more knowledge-based, making education more valuable than ever before. The teenage labor supply has responded by placing greater value on gaining education than work experience.

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However, both the 2001 and 2007 recessions accelerated the downward trend of labor force participation rates of teenaged workers. Teenagers are generally the lowest-skilled, least-educated workers, and therefore often find it difficult to compete against better-qualified workers during recession periods. Facing high unemployment rates and a challenging labor market, more teenagers dropped out of the labor force during the recent recession. While some economic indicators indicate that the labor market situation for teenagers has improved, other indicators suggest that teens may continue to struggle to find employment opportunities.

Teenage Labor Force Participation

Overall, Montana teenagers participate in the labor force at a greater rate than teens in the U.S. as a whole, with 40% of Montana’s 16 to 19 year-olds working or looking for work, compared to 35% of teenagers nationally. Teenagers comprise roughly 4% of Montana’s workforce, with an average of 12,200 jobs held by workers aged 14 to 18 in 2013. The peak employment of Montana teens during 2013 was 15,200 workers employed in the 3rd quarter.

The U.S. labor force participation rate for teenaged workers (16 to 19) hit its peak of 58% in 1979, and has been in decline ever since. While Montana’s labor force participation for young workers is slightly higher, it is likely that Montana’s rates are also trending downward over time.² All subsets of U.S. teenagers (all groupings of teenagers by age, race, gender, geographic area, family income, and school enrollment) have experienced a decline in the labor force participation rate. Further, while the labor force participation rate has been declining for the overall population since the mid-1990s, the decline in teen participation has been deeper and occurring for a longer time frame compared to workers overall. Working teenagers are also working fewer hours, on average, than previous generations.³

As mentioned above, most researchers have contributed the long-term decline in labor force participation to increased educational attainment and increased time studying, which builds human capital and increases productivity enough to offset the loss of work experience. Another common theory is that rising family income levels reduce the need for teens to work. However, teenage labor force participation rates are slightly higher for higher income families than low-income families, opposite of what would be expected if the wealth effect had a strong influence. Research has found evidence that college affordability decreases teen labor force participation rates, however, with greater availability of college scholarships and lower tuition costs (particularly for community colleges) negatively associated with teen labor force participation rates.⁴

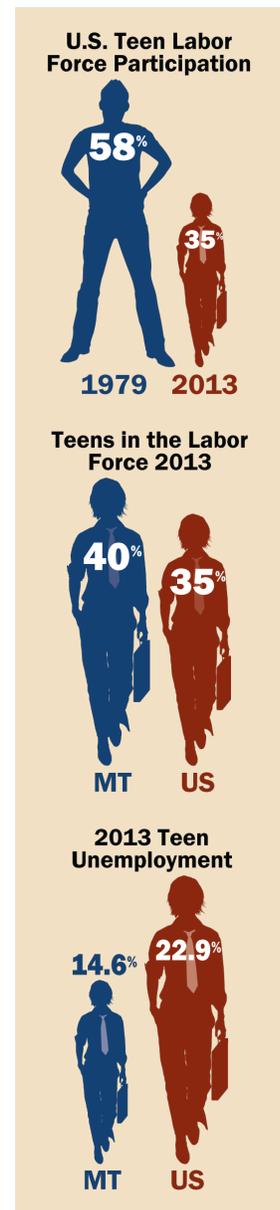
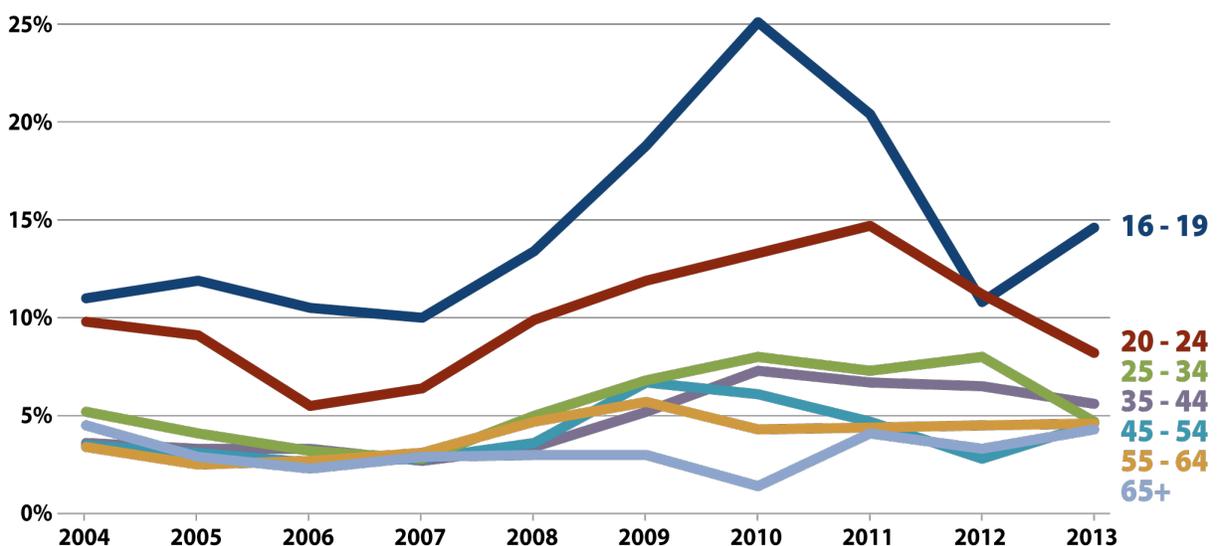


Figure 1: Montana Unemployment Rates by Age



Teenage Unemployment

Greater educational attainment and college affordability have been found to influence the long-term decline in labor force participation rates, but there are also strong short-term cyclical influences on the teenage labor supply. The 2007 recession caused the unemployment rate for teenagers to spike dramatically, more than workers of older age groups, hitting a peak of 25% in 2010. Unemployment rates by age group in Montana are shown in Figure 1. In general, unemployment gets less likely as a worker ages and gains education and work experience.

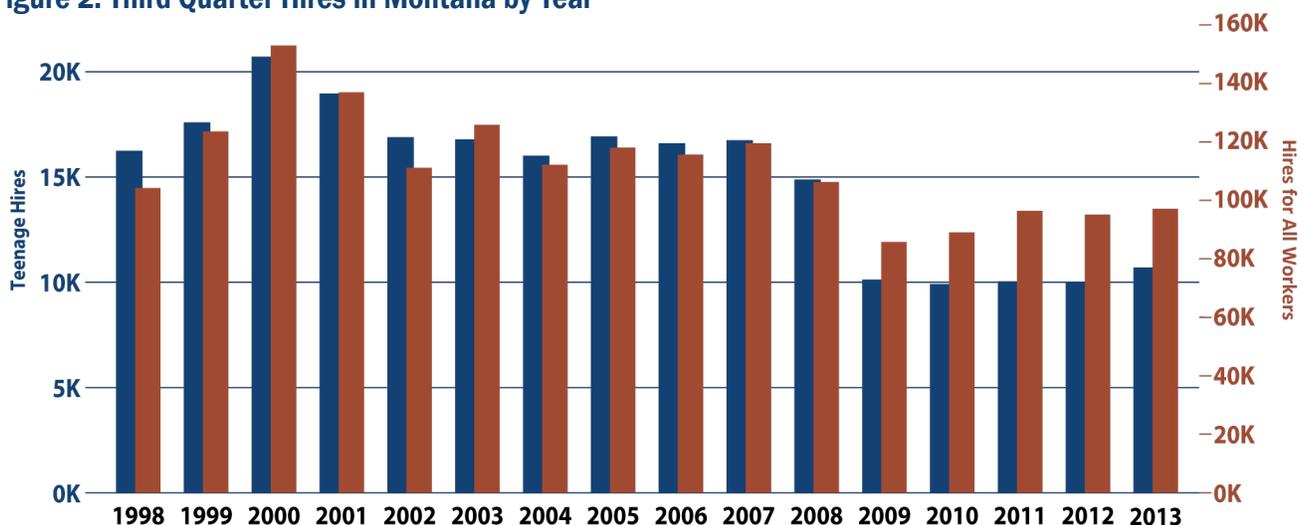
Unemployment for the youngest group of workers increased quickly during the recession both because teens are the least-experienced workers and because teenagers have high turnover rates. Turnover rates for teens are usually above 25% compared to about 10% for the population as a whole. As teenagers leave their jobs to return to school or pursue other interests, the positions can be eliminated without an employer going through the difficult process of firing a worker. Therefore, teen positions, and other seasonal and temporary positions, are among the first to disappear in a contraction.

The unemployment rate for 16 to 19 year olds has moderated since 2010 in Montana, although it remains slightly elevated at 14.6%. Although the unemployment rate for

Montana teens is high compared to other age groups, teenagers in Montana are less likely to be unemployed than teenagers nationally. The U.S. unemployment rate for 16 to 19 year olds hit a high of 25.9% during the recession, but has not improved much in the last several years, with an unemployment rate of 22.9% in 2013.

Hiring rates for Montana teenagers suggest that it may take more time for the teen unemployment rate to decline further. Figure 2 illustrates the new hires made in the third quarter of each year since 1998 (only 3rd quarter hires are shown to control for seasonality). The 2007 recession had a large impact on the hiring rates for all workers, which dropped from over 120,000 in the third quarter of 2007 to roughly 86,000 in 2009 before increasing again to 97,000 in 2013. However, the hiring rates for teenagers have not recovered since the recession, dropping from nearly 17,000 prior to 2008, down to roughly 10,000 in 2009 through 2012. Hiring of teenage workers has recovered slightly in 2013, up to 10,700 hires, but the recovery is muted and significantly delayed. The demand for teenage workers will likely show more improvement in 2014, given faster employment growth and lower unemployment rates for all workers, but the recession may also have lasting impacts on teenage employment.

Figure 2: Third Quarter Hires in Montana by Year



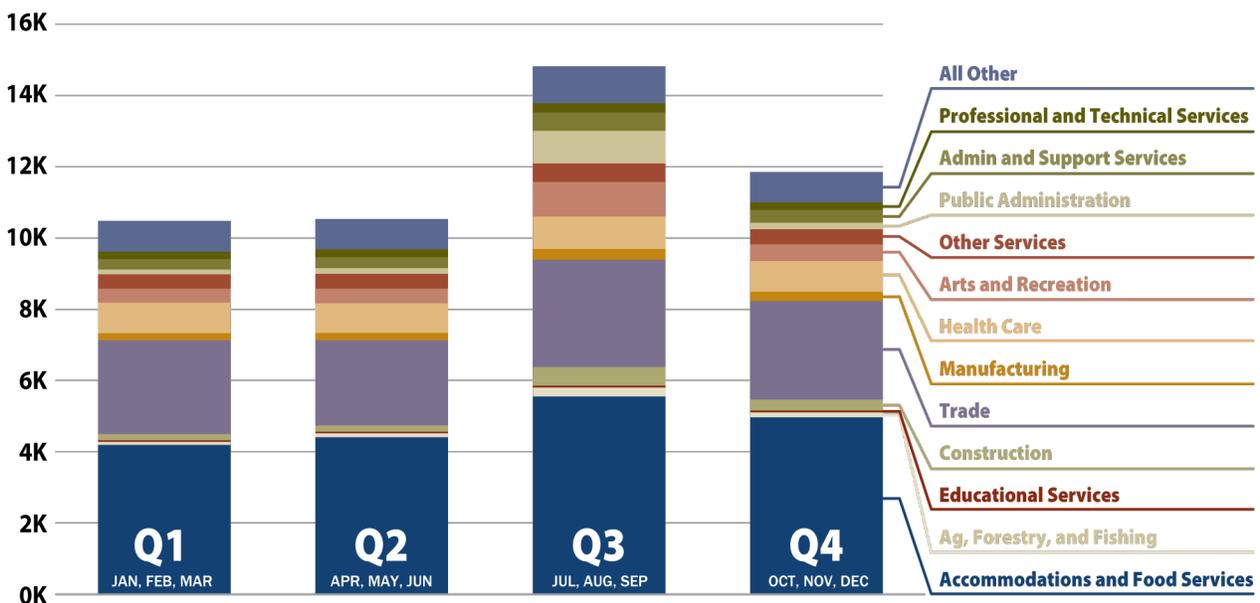
The lower hiring rates for teenage workers exiting the recession can be partially explained by slow recent growth for the industries that hire a lot of teenage workers. Figure 3 illustrates the average industry breakdown of the jobs held by Montana teenagers over the last three years, shown by quarter. Unsurprisingly, the third quarter (including the summer months of July and August, and the back-to-school month of September) has the highest number of employed teens because students are not in school and therefore have more time for a job. On average from 2010 through 2013, there were roughly 10,500 teenagers employed in the first and second quarters, 14,850 workers in the third quarter, and 11,850 in the fourth quarter. Employment in the 4th quarter is slightly higher than the other non-summer months due to holiday seasonal hiring. Although teenage employment is highly seasonal, the roughly 10,500 jobs available in the first and second quarters suggest that there are also non-summer, year-round permanent positions open for teenagers.

with roughly 20% of teenage workers. The retail industry hires an average of 2,700 workers during a year, but the employment levels range from a low of about 2,400 in the second quarter to over 3,000 in the third quarter. Both of these industries offer part-time employment and schedules outside the typical 9-to-5 office day, a must for young workers balancing school and extracurricular activities. These two industries also have seasonal needs that provide short-term work opportunities for teen workers. Hotels, restaurants, and retail establishments all experience higher demand in summer months, especially in communities with a lot of tourism. Short-term retail workers are also needed during the winter holiday shopping season, which often corresponds to semester and winter breaks in school.

Figure 3 illustrates that all industries hire some teenagers, but roughly 40% of teenagers work in the accommodations and food service industry, which hires roughly 5,500 teens during the summer third quarter hiring peak. The second largest employer of teenagers is the retail industry

The retail trade industry experienced slow growth exiting the recession, adding only 111 jobs in 2011 and 505 jobs in 2012. The slow growth in retail may help explain the low and stagnant hiring rate for teens in recent years. However, a better explanation appears to be that teens are still experiencing tough competition from more qualified older workers, even though Montana’s economy has fully regained all of the jobs lost during the recession. The primary industry hiring teenagers, accommodations and food service, has had strong job growth exiting the

Figure 3: Montana Teenage Employment by Industry by Quarter, 2010-2013



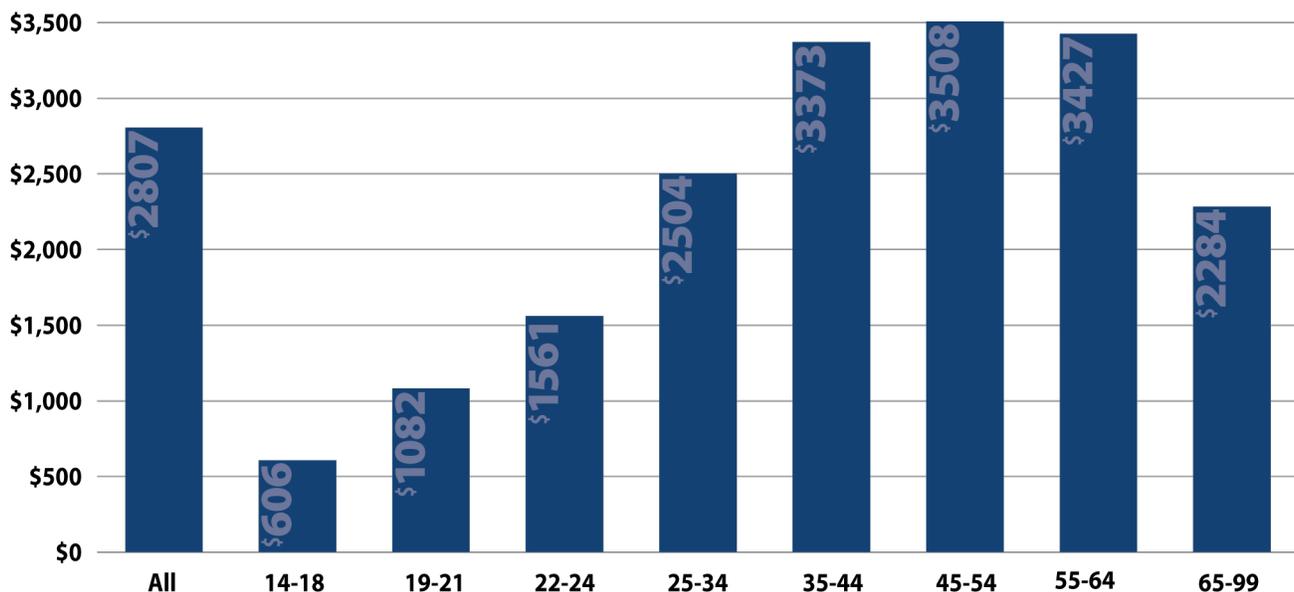
recession, with job gains of over 1,500 jobs (3.3%) in both 2012 and 2013. But instead of hiring teenagers, the industry has been hiring older workers to fill these jobs. The number of 25 to 34 year olds working in the accommodations and food service industry increased by 2,400 from 2007 to 2013, increasing the share of jobs held by this age group by roughly 4%. The share for older, retirement age workers has also been increasing in the accommodations and food service industry, with about 270 more jobs held by retired workers and 750 more jobs held by workers aged 55 to 64 in 2013 compared to 2007, increasing the shares of these two age groups by 0.4% and 1.2%, respectively. The number of teenagers employed by the accommodations industry has declined by over 2,000 workers, losing roughly 5% of the share.

It is difficult to tell whether the trend of hiring older workers for accommodation and food service jobs, and other types of jobs held by teenagers in the past, will continue in future years. The trend of fewer and fewer teens in the labor market is certainly a long-term trend caused by cultural shifts and a greater value of education compared to experience in our labor market. The long-term declining teen participation rate suggests that the share of teenagers employed in every industry should continue downwards. Further, Montana’s aging population

may be providing competition for teen workers, as both teens and semi-retired workers often seek out part-time, low-stress employment, and an employer may prefer a worker with a life history of good work habits compared to an untried youth. On the other hand, most of the accommodations and food service jobs are now being held by workers aged 25 to 34, who likely have education levels higher than needed for the typical job in the accommodations industry. These higher-skilled workers likely will move into higher paying jobs in different industries as the economy continues to recover, leaving more opportunities for teens.

Earnings generally increase as a worker ages and gains experience, as shown in Figure 4. Figure 4 illustrates average monthly earnings in the third quarter of 2013 by age group. The third quarter is shown because it is the quarter with the highest earnings levels for teens, although most age groups have the highest earnings in the fourth quarter. The earnings for workers aged 14 to 18 in the 2013 third quarter was about \$606 per month, which would correspond to roughly \$7,270 annually if a teen worked similar hours year round. However, teens are likely to have more time available for work during the summer months than during the school year. Because of the decline in hours worked, the average monthly earnings

Figure 4: Montana 3rd Quarter Average Monthly Earnings by Age, 2013



is lower for the other quarters in 2013, in the range of \$466-490 per month. The highest earning workers in Montana in 2013 were 45 to 54 age group, with earnings over \$3,500 in the third quarter. It is difficult to tell how much of the difference between age groups reflects a move to full-time employment (and more hours worked) as a worker ages, rather than higher salary levels or hourly wage rates. Both more hours worked and higher wage rates drive earnings up as a worker ages.

Consistent with the lower post-recession hire rate for teens, teen wages were fairly stagnant as Montana exited the recession. Comparing the third quarter of 2008 during the recession to the same quarter in 2011 when the economy stabilized, monthly earnings for all Montana workers increased by 10%, but earnings for teen workers only increased by 3.6%. Earnings growth for teens has accelerated in 2012 and 2013, with third quarter earnings now at 10% above the 2008 peak, but growth still lags behind all other workers. Slow earnings growth provides further evidence that Montana teens are still feeling the impacts of the 2007 recession.

Although Montana teens face lower unemployment rates than teens in the nation overall, teens are still experiencing low hiring rates and slow wage growth when compared to other groups of workers. Because teens are inexperienced, less-educated, and have higher turnover rates compared to other Montana workers, the group is expected to have worse labor market outcomes. Indications of returning strong demand for teenage workers may be the last indicator needed to declare the Montana economy as fully healed from the impacts of the 2007 recession.

Even after the demand for teen workers returns, the longer-term trend of lower teen labor force participation rates is expected to continue. Montana teens are more

likely than their national counterparts to be in the labor force, likely due to both a better overall economy and to cultural factors, but Montana teens have also been choosing education over work experience in the teen years. Many researchers have concluded that the decline of youth employment is a good thing, allowing teenagers to focus on education and developing social skills through extracurricular activities. But concerns remain about the lack of basic work skills and work ethic often learned in the first entry-level job.

Few may miss the mundane and low-paying grunt work typical of teenage jobs, but without entry-level experience, workers must find other options to gain the soft-skills that employers expect to find in college-educated workers. Some college-educated workers may be forced to take entry-level jobs to gain work experience before being ready for better paying jobs. Another option would be for schools to place greater focus on developing work-related soft skills, but this demand would add to already crowded requirements for an educational program.

A further concern about the decline of teenage work is that teens are not exposed to multiple career options before college, possibly limiting their career interests and causing them to select training programs where they would not ultimately enjoy the work. Internships, job shadowing, and career information could reduce these concerns, and become much more valuable to teenagers who have missed out on the world of work. The Montana Department of Labor and Industry provides an array of career planning resources, from career publications to a comprehensive online career information system. Check it out at www.careers.mt.gov. While nothing beats first-hand experience, career information tools can expose young workers to a world of career options.

Sources:

¹ Morantz, Alison. 2001. "Teens in the Workforce" Regional Review, Federal Reserve Bank of Boston. Quarter 2, 2001. Available at www.bostonfed.org/economic/nerr/rr2001/q2/teens.htm.

² Insufficient data exists to definitively make this conclusion.

³ Aaronson, Daniel; Park, Kyng-Hong; and Sullivan, Daniel. 2006. "The Decline in Teen Labor Force Participation" Economic Perspectives, Federal Reserve Bank of Chicago, 1st quarter p1.

⁴ Ibid.