Can I Get an Extra Side of Workers?

A Look at Labor Force and the Food Service Industry

By Nick Holom, Economist

Even though Montana has more people working than ever before, businesses—especially restaurants—are still reporting a desperate need for more workers. If you're a follower of Economy at a Glance, you have probably already heard how long-term demographic trends have slowed the growth in the worker supply as a large cohort of older workers (the Baby Boomers) retire (see "Where Are the Workers?"). However, labor force participation has also decreased among younger workers over the past few decades. This makes the labor shortage particularly hard on industries that rely on young workers, such as accommodation and food services, and prompts many to ask—are young people getting lazier? This EAG focuses on younger workers and the current shortage of workers in the food service industry.

Hungry for Workers

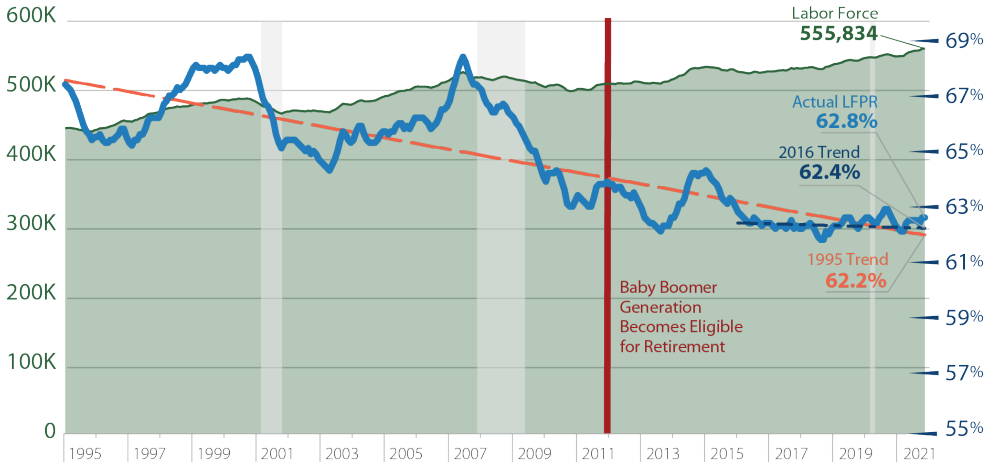
If you're a restaurant owner you already know that Montana's economy is short on workers. Montana's unemployment rate reached historic lows in November, which means most people who want a job already have one, and those who lose or quit a job can quickly find a new one. Even as more Montanans are back to work in the food service industry, it's still a common experience to go to your local restaurant and find a sign reading, "Not open today due to lack of kitchen staff."

How can there be more people working than ever, but also a shortage of workers? As with any story about a shortage, there are two sides: supply and demand.

On the worker supply side, the labor force has roughly 12,500 more people in November 2021 than it did just prior to the pandemic (see **Figure 1**).[1] However, the population is also growing, which increases demand for workers. The labor force participation rate (LFPR—

1 *Calculated using IPUMS CPS 12-month moving average ending November 2021 minus the 12-month moving average in ending February 2020.*

FIGURE 1
Trends in Montana's Labor Force Participation Rate



Source: IPUMS CPS data, 12-month moving average. Trends are calculated using data from start year to February 2020. Recessions are shaded.

or the labor supply as a share of the population), is about the same as it's been for the past five years, but is lower on average than it was in the 1990s and early 2000s. To put the difference between decades into perspective, Montana would have 42,500 more people in the labor force if the current LFPR would be the same as it was in 1995.[2] However, if Montana had the same small share of the working age population that was over 65 as it had in 1995, that would mean 70,900 fewer retirement age people, illustrating how high labor force participation in the 1990s is mostly due to a greater share of the population being in their prime working years (age 25-54).

Though the pandemic temporarily reduced the labor force, the current estimates of the overall LFPR indicate that, Montana is working with slightly more workers than it had just prior to the pandemic. From a labor supply perspective, the labor shortage has less to do with pandemic-related impacts and more to do with the long-term demographic-driven shortages (i.e., more of the population not working due to more retirees).

On the demand side, changes to personal income and wages continue to increase demand for Montana-made products and services, which translates into higher demand for workers.[3] Total spending continues to climb in Montana, up 25.4% in November 2021 from just prior to the pandemic.[4] As businesses scramble to hire more workers to meet demand, Montana's number of unfilled job openings has risen dramatically.[5] The average level of unfilled job openings in 2021 was 37,600 per month, about 10,200 jobs higher than in 2019.[6] Put into context with Montana's lower levels of unemployment in 2021, there are 2.1 job openings for every unemployed person compared to 1.4 job openings in 2019. More job openings and less unemployed workers means more businesses struggling to hire the workers they need.

Anecdotally, the labor shortage has been especially difficult for the accommodation and food service industry in Montana. **Figure 2** shows that, nationally, accommodation and food service continues to have a markedly higher share of businesses expressing difficulty hiring, with 59% of businesses saying they had difficulty hiring in the past week—almost double the average across all businesses. This data series

2 *Calculated based on population estimate of working population 15 and up from CPS 2021.*

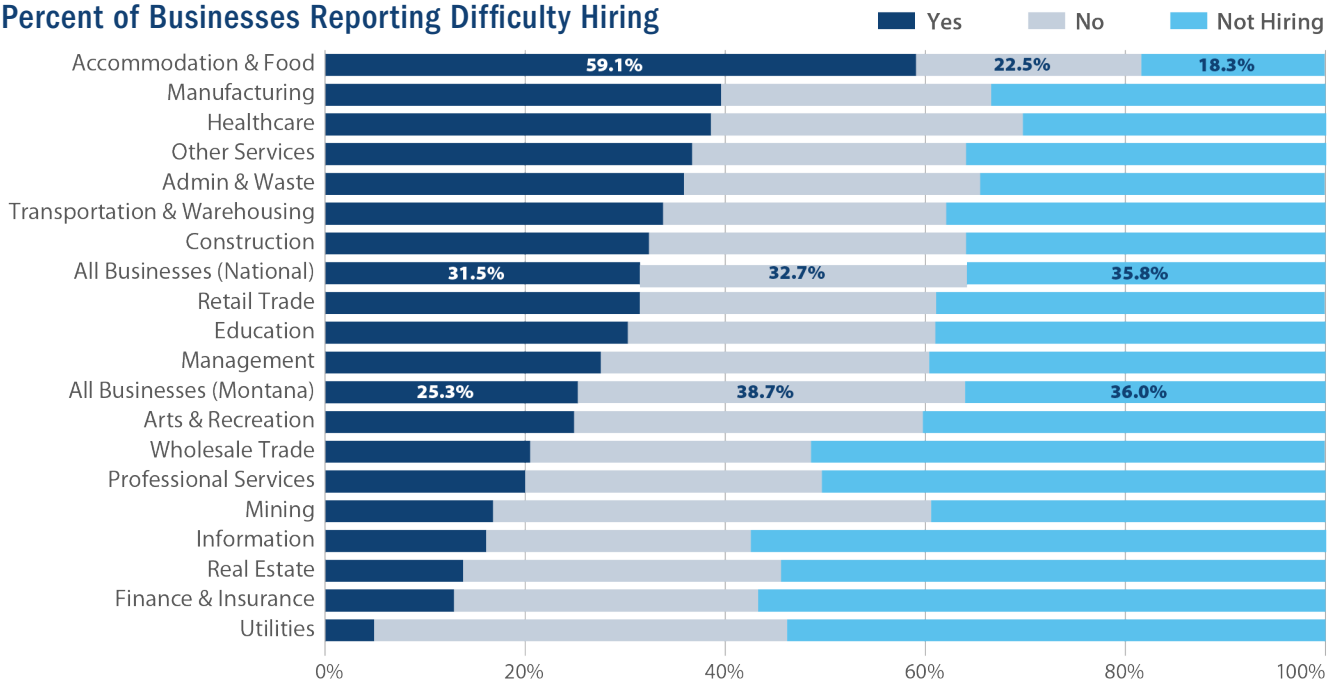
3 *According to the Bureau of Economic Analysis, Montana's per capita disposable personal income increased by $3,200 from 2019 to 2020.*

4 *"The Economic Impacts of COVID-19: Evidence from a New Public Database Built Using Private Sector Data", by Raj Chetty, John Friedman, Nathaniel Hendren, Michael Stepner, and the Opportunity Insights Team. November 2020. Available at: https://opportunityinsights.org/wp-content/uploads/2020/05/tracker_paper.pdf. Data on consumer spending in Montana for week ending November 14, 2021. See the Opportunity Insights dashboard at https://www.tracktherecovery.org/.*

5 *See MTDLI job postings dashboard and our previous EAG "Recruiting Montana" https://lmi.mt.gov/_docs/Publications/EAG-Articles/1021-RecruitingMT.pdf.*

6 *BLS JOLTS Data, annual averages.*

FIGURE 2
Percent of Businesses Reporting Difficulty Hiring



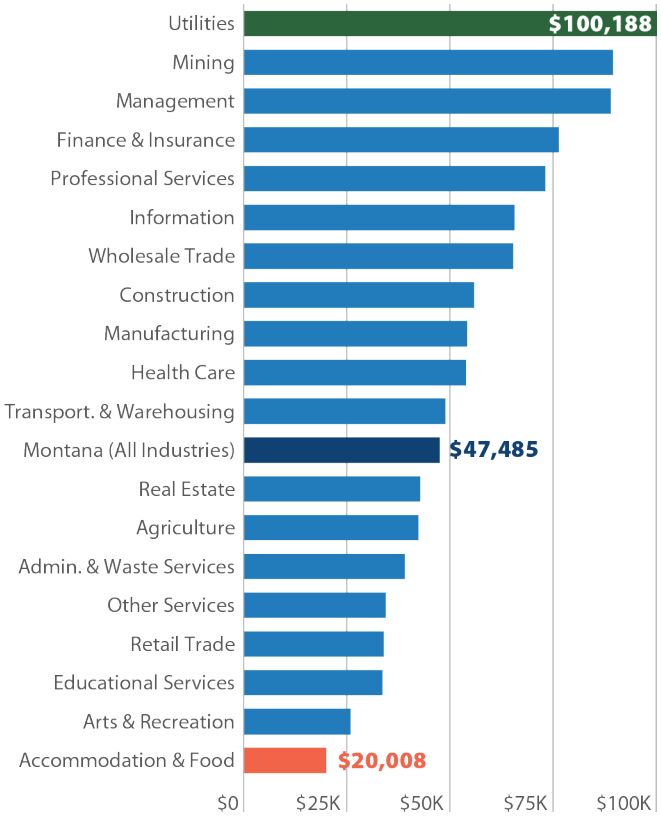
Source: Census Bureau Small Business Pulse Survey. Data for 12/6/2021 to 12/12/2021. Industry data presented is national data. Industry data for Montana is unavailable.

is limited to the post-pandemic period, making it difficult to know if this is the typical level of hiring difficulty experienced by the industry or a pandemic-related increase. The share of accommodation and food service businesses reporting hiring difficulty has gone down steadily since fall 2020 by about 10 percentage points, suggesting the situation is improving. Even so, Montana's food service industry still seems to have difficulty filling positions. So what specifically is happening to the labor force that could be affecting restaurants?

Fresh Workers at a Good Price

Accommodation and food service is Montana's youngest and lowest paid industry on average. The average age for workers in accommodation and food service is 34.4 compared to 42.6 for all workers.[7] Workers in accommodation and food service make an average annual wage of $20,008 (see **Figure 3**), which is nearly $27,500 less than the average wage across all industries.[8] Nationally, employee compensation from benefits in 2021Q3 was $3.08 per hour worked for

FIGURE 3
2020 Average Annual Wages by Industry



Source: MTDLI Quarterly Census of Employment and WAGES, 2020

7 *Calculated based on a 5-year average (2015-2019) using IPUMS CPS data*

8 *Unreported cash tips likely reduce this estimate; however the extent of that reduction is unknown.*

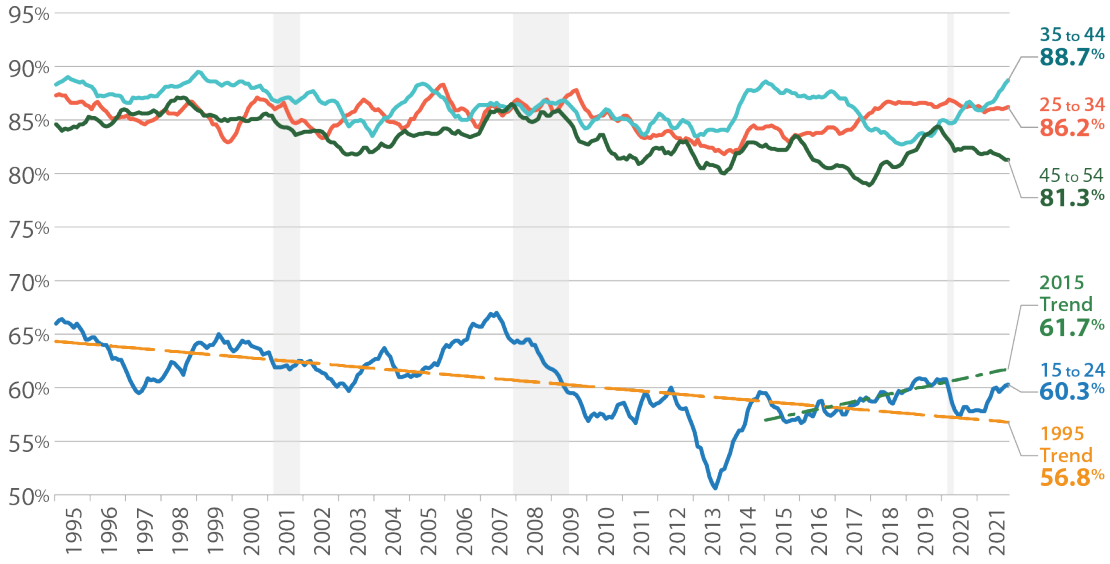
accommodation and food service compared to $10.88 for all industries.[9] Low wages and compensation likely makes it more difficult for the food service industry to compete against other businesses struggling to find workers, as more young workers move into better paying jobs.

Figure 4 shows that after the pandemic shutdown younger workers had a drop in labor force participation, with labor force participation for workers 15-24 falling from 60.8% just prior to the pandemic to roughly 58.1% during the early months of the pandemic. The most recent estimate for Montana's youngest workers suggests that labor force participation has continued to rebound at 60.3%, though still below the pre-pandemic level and the short-term trend. Had labor force participation rates of younger workers stayed on the same trend as they were on since 2015, their labor force participation would be 61.7% today, resulting in 1,800 more workers in this age group.

Since 2015, younger workers were trending towards higher labor force participation, despite a declining trend since 1995. About six more workers per hundred in the 15-24 age group were in the labor force in 1995 compared to today. One possible explanation for the decrease between decades is that more young people are attending school in response to greater returns to education, as roughly 77% of those 15-24 say attending school is their main reason for not working.[10]

Beyond temporarily having fewer workers in the labor pool, other labor supply factors, such as hours worked and the share of multiple job holders, may be affecting businesses' ability to return to normal operations. Restaurants may be especially sensitive to changes in the number of multiple job holders as a greater share of food service workers tend to hold multiple jobs than in most industries.[11] **Figure 5** shows that the share of workers who work multiple jobs decreased for both young workers and all workers.[12] In the most recent month, 7% of young workers hold multiple jobs compared to about 8.6% in the month just prior

FIGURE 4
Labor Force Particpation by Age Group



Source: IPUMS CPS data, 12-month moving average. Trends are calculated using data from start year to February 2020.

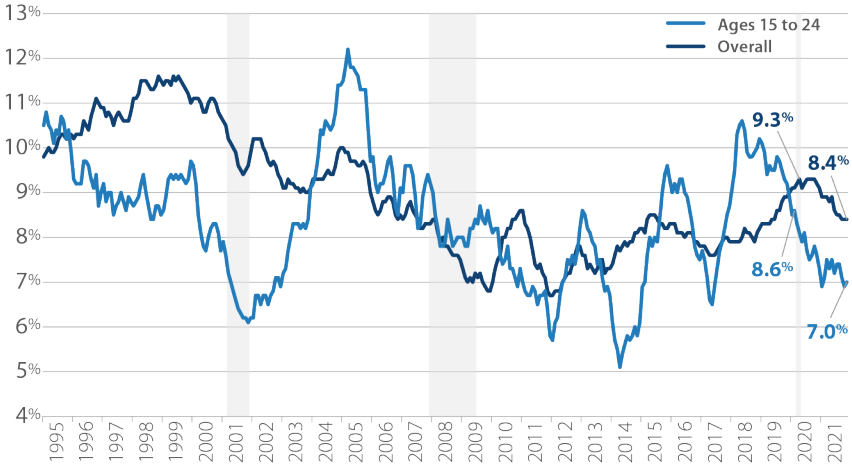
9 *Employer Costs for Employee Compensation. Bureau of Labor Statistics. September 2021. https://www.bls.gov/news.release/pdf/ecec.pdf*

10 *Estimate based on 12-month moving average from IPUMS CPS. Many studies estimate that one additional year of school increases average hourly earnings by 8-13 percent. The Return to Education Isn't Calculated Easily. Kolesnikova, Natalia. 2010. Federal Reserve Bank of St. Louis. https://www.stlouisfed.org/publications/regional-economist/january-2010/the-return-to-education-isnt-calculated-easily#endnotes*

11 *Multiple jobholding over the past two decades. Lale, Etienne. Bureau of Labor Statistics, April 2015. https://www.bls.gov/opub/mlr/2015/article/pdf/multiple-jobholding-over-the-past-two-decades.pdf*

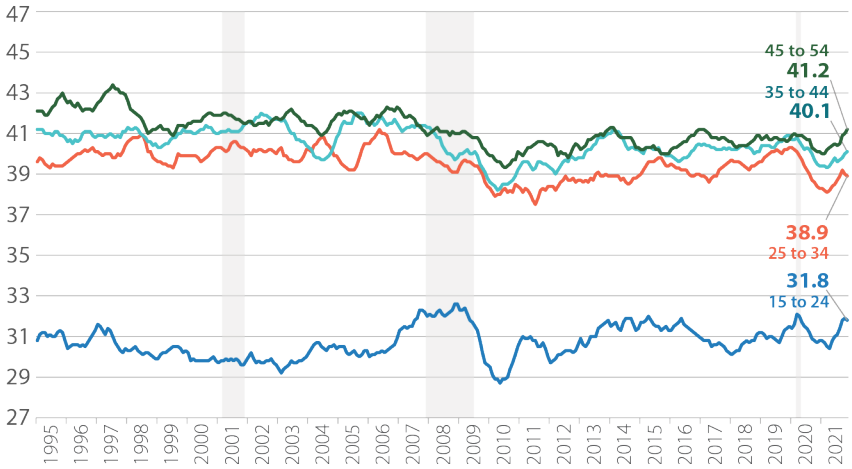
12 *The decline in the share of workers holding multiple jobs is true across all age groups except for older workers.*

FIGURE 5
Share of Workers Holding Multiple Jobs by Age Group



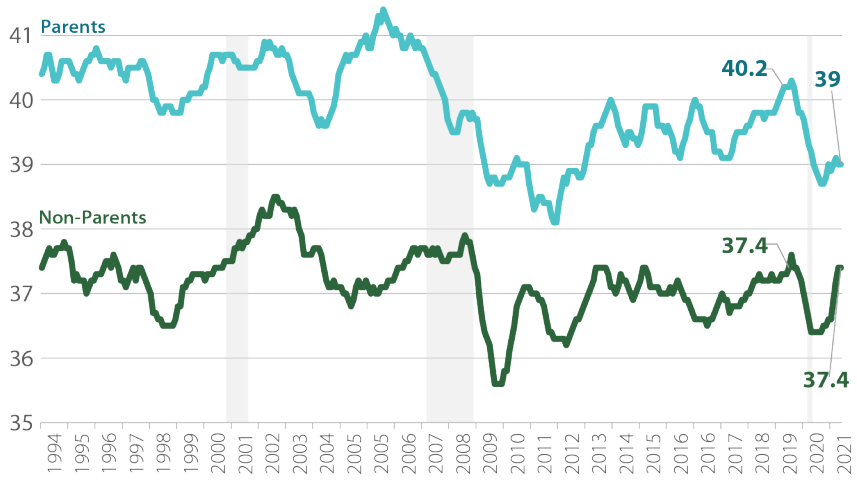
Source: IPUMS CPS data, 12-month moving average. Recessions are shaded.

FIGURE 6
Average Hours Worked in Previous Week by Age Group



Source: IPUMS CPS data, 12-month moving average. Recessions are shaded.

FIGURE 7
Average Hours Worked in Previous Week by Parent Status



Source: IPUMS CPS data, 12-month moving average. Recessions are shaded.

to the pandemic. The decreasing share of multiple drop holders could be a response to increased wages in workers' main job, leading fewer workers to supplement earnings by picking up a part-time job. The share of workers working multiple jobs also fluctuated regularly in years prior, suggesting that even though fewer workers are working multiple jobs, it's unclear whether this change has anything to do with the pandemic.[13]

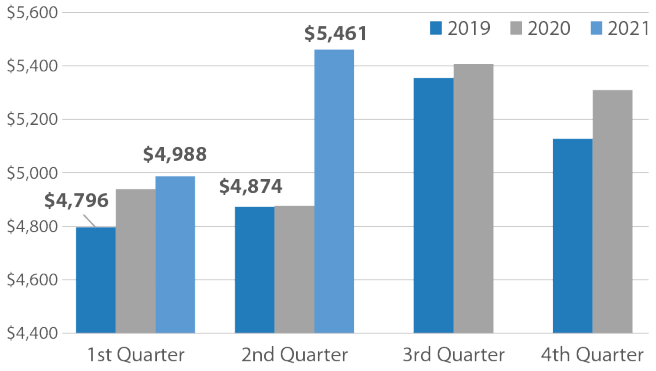
The average number of hours worked per week also took a hit for all age groups, with workers 25-34 experiencing the greatest drop, decreasing by about two hours compared to pre-pandemic, and remaining at 1.3 hours less on average than before the pandemic (see **Figure 6**). Workers 15-24 had decreased by an average of 1.2 hours from peak-to-trough, but have since recovered close to their previous levels.

For those who are still working fewer hours, the reason is likely persistent issues with childcare availability. Both parents and non-parents experienced an initial drop in hours per week at the start of the pandemic; however, parents' hours worked remains depressed at roughly 1.2 hours fewer on average per week (see **Figure 7**). By contrast, non-parents have reached their February 2020 level of hours worked.

These trends suggest that the number of workers available, the number of jobs per worker, and the number of hours worked have all taken a hit over the year. For some groups, many of these measures have improved; however, the

13 *In addition, the small sample sizes in the current population survey (roughly 1,670 people surveyed on average per month in Montana from 2019-2021) means estimates have large error ranges, which could be the source of fluctuation.*

FIGURE 8
Average Real Wages, Accom. & Food Service



Source: MTDLI Quarterly Census of Employment & Wages, in real 2021 dollars using BLS CPI-U

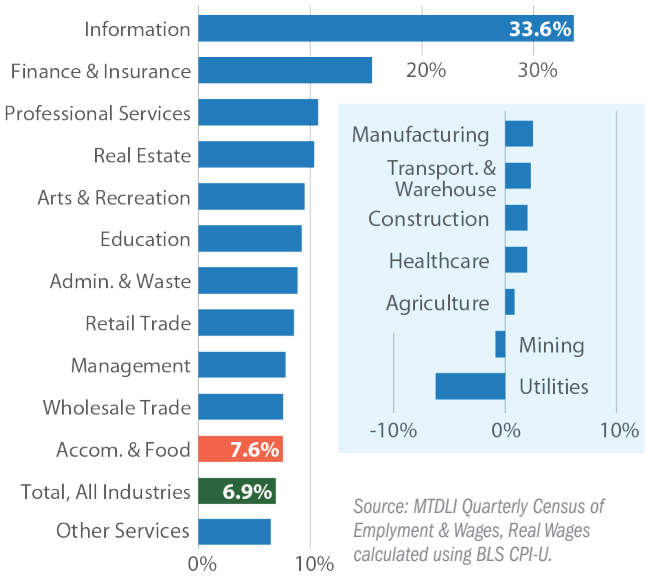
drop in labor supply across many of these measures likely still contributes to labor shortages for the food service industry.

Bringing Home the Bacon

One benefit of a labor shortage is that workers have more bargaining power, and wages rise as businesses compete to attract limited workers. Real wages have increased across almost every industry in Montana in 2020, improving the economic well-being of more Montanans. Accommodation and food service continues to have significant real wage gains, increasing wages by $587 in 2021Q2 on average compared to 2019Q2 (see **Figure 8**).

Workers in the accommodation and food service industry have had higher wage gains than workers on average. **Figure 9** shows that for the first half of 2021 real wages in accommodation and food service grew by 7.6% compared to the first half of 2019. However, other lower wage industries, such as retail trade, have had faster wage growth than accommodation and food service, suggesting that the industry may be having a more significant labor shortage due to an inability to increase wages as quickly to compete over workers. This could be because the food service industry tends to have slimmer profit margins making it more difficult to raise wages quickly, or because wages for restaurants workers come mostly from tips which are largely out of restaurant owners' control. In addition, most prior years show that quarters three and four tend to be higher wage quarters for accommodation and food services. If demand for workers is higher in the second half of the year, and supply of workers does not

FIGURE 9
Percent Change in Real Wages for First Half 2021 Compared to First Half 2019



Source: MTDLI Quarterly Census of Emplyment & Wages, Real Wages calculated using BLS CPI-U.

increase accordingly, business could feel the shortage more acutely during this period, with more significant wage increases in response.

Conclusion

Despite having more people available for work than ever before, Montana's labor supply is struggling to keep up with the growing economy. Long-term demographic shifts have reduced growth in the labor supply for over a decade, while short-term disruptions from the pandemic have temporarily reduced hours and availability for some worker groups. Throughout the pandemic, restaurants have been noticeably affected. However, attributing this shortage to young people being lazier ignores that for the most part labor force participation for young people has recovered to pre-pandemic labor force participation and hours. For groups that have not recovered, other factors such as lack of childcare availability, and choosing to attend school full-time may be limit their ability to work and reduce the number of hours and jobs they can work. In some ways, the labor shortage could be good news for younger workers who will likely continue to have greater wage gains. On the other hand, for industries such as accommodation and food services, increased competition for workers may make attracting workers difficult if they can't increase wages to compete.