

The Labor Market Impacts of the National Economic Crisis in Rhode Island

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Context of Job Losses

The Rhode Island economy has been experiencing a severe economic contraction that began at the end of 2006, about one year prior to the onset of the national economic recession. Rapid rates of job loss and sharp increases in unemployment have been but the most visible impacts of this downturn. The current economic crisis is unlike any that has been experienced since the Great Depression. The national economy seems to be operating in a deflationary environment triggered by a collapse of lending activity in the world banking system. Indeed, for the first time since the 1930s, Gross Domestic Product is expected to fall in nominal terms during 2009—the result of not only sharp output reductions, but also declining overall price levels led by sharp reductions in the real value of housing and increasingly commercial real estate.¹

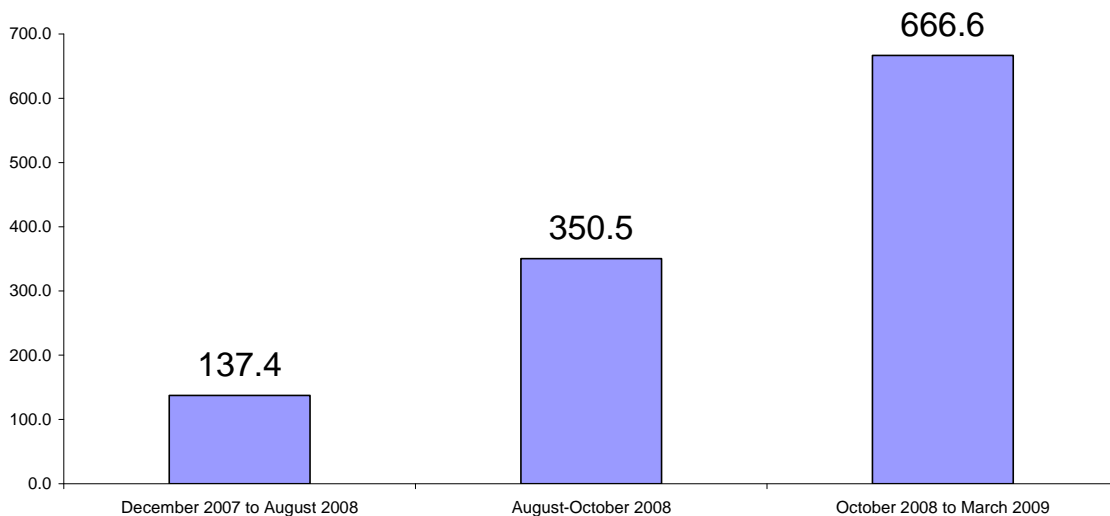
While both prices and output are falling, producer costs are relatively fixed in the short-run. Wages and salaries along with a variety of contractual agreements tend to be sticky downward. That is as producer revenue declines the price of labor and other inputs does not adjust downward very quickly to the new revenue picture. The result is that firms are left with reductions in the number of workers on their payrolls and reduced hours of work for those who remain in payrolls as the primary mechanism available to respond to their declining sales and revenues.

The result of the deflationary environment that now characterizes the national economy has been extraordinary declines in payroll employment in the nation that have accelerated in recent months as well as very large increases in the number of workers who remain employed but have seen their scheduled hours of work reduced from full-time to part-time levels. During the early stages of the economic downturn covering the December 2007 to August 2008 period, payrolls of American firms declined at a monthly average pace of 137,000 jobs, a rate of job loss that was lower compared to the early stages of the recession of 2001 when the nation averaged payroll employment declines of

¹ Congressional Budget Office, *A Preliminary Analysis of the President's Budget and an Update of CBO's Budget and Economic Outlook*, March 2009 <http://www.cbo.gov/ftpdocs/100xx/doc10014/toc.htm> The Consumer Price Index decreased by 0.4 percent last year, the first such decline since 1955. See U.S. Bureau of Labor Statistics, *Consumer Price Index: March, 2009* <http://www.bls.gov/news.release/pdf/cpi.pdf>. This decline was led by sharp reductions in energy and transportation prices.

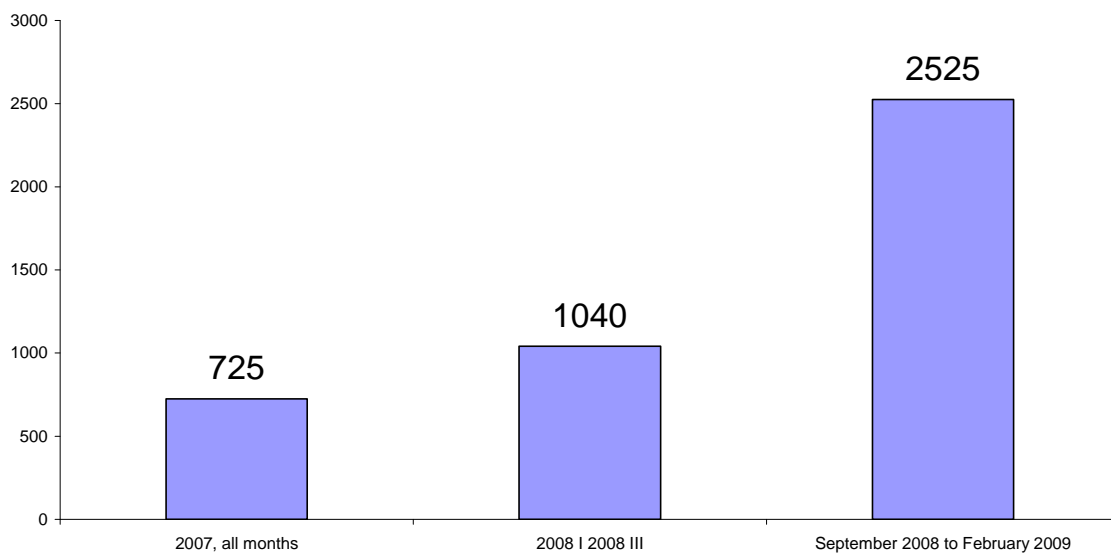
180,000 jobs per month during the first year of that recession. However, beginning in September and triggered by the Lehman Brothers 'event,' labor market conditions in the nation began to deteriorate sharply as credit dried up, equity values plunged, housing values continued to fall, but at an accelerated pace, and producers and consumers cut back spending in response. Over the fall of 2008 the monthly rate of job losses in the nation exploded, rising to a monthly average of 350,000 jobs lost per month, but the worst was yet to come. Increasing pessimism among consumers, credit still hard to find, and financial and real estate values of households plunging at an accelerating pace, GDP declined precipitously and monthly job losses in the nation reached unimagined levels. Between November 2008 and March 2009 wage and salary employment losses in the nation averaged 666,000 jobs per month. Indeed over the last five month period the American economy lost more jobs (3.3 million) than was lost between the February 2001 employment peak and July 2003 employment trough (2.7 million) of the recession of 2001.

Accelerating Monthly Rates of Wage and Salary Employment Losses in the Nation During the Current Economic Crisis (seasonally adjusted data, in thousands)



Payroll employment levels in Rhode Island have experienced accelerated rates of loss in recent months as national economic trends have impacted the state's labor market. Rhode Island began experiencing payroll employment declines about one year earlier than the nation as a whole. During 2007 as national employment levels continued to rise, wage and salary employment began to decline in the state. Rhode Island lost about 725 jobs per month during the early stage of the economic downturn. However, during the first three quarters of 2008 the rate of decline in the state's payroll employment levels began to increase with losses averaging just over 1,000 jobs per month in the first nine months of last year. Beginning in September 2008 payroll employment levels in the state have plunged; over the past five months Rhode Island has shed an average of 2,500 payroll jobs, a monthly pace of job loss not seen in the state since the recession of 1990-91.

Accelerating Losses in Payroll Employment Levels in Rhode Island During the Current Economic Crisis (seasonally adjusted)



The Labor Market Structure of the Recession in Rhode Island

The losses in payroll employment levels that have occurred in Rhode Island over the last two years have been heavily concentrated in particular sectors of the state economy. This has meant that workers in some industries have experienced much greater job loss than others, and the impact of the decline has been concentrated among workers in particular occupational areas and that the job loss has had much different impacts on workers based on their level of educational attainment.

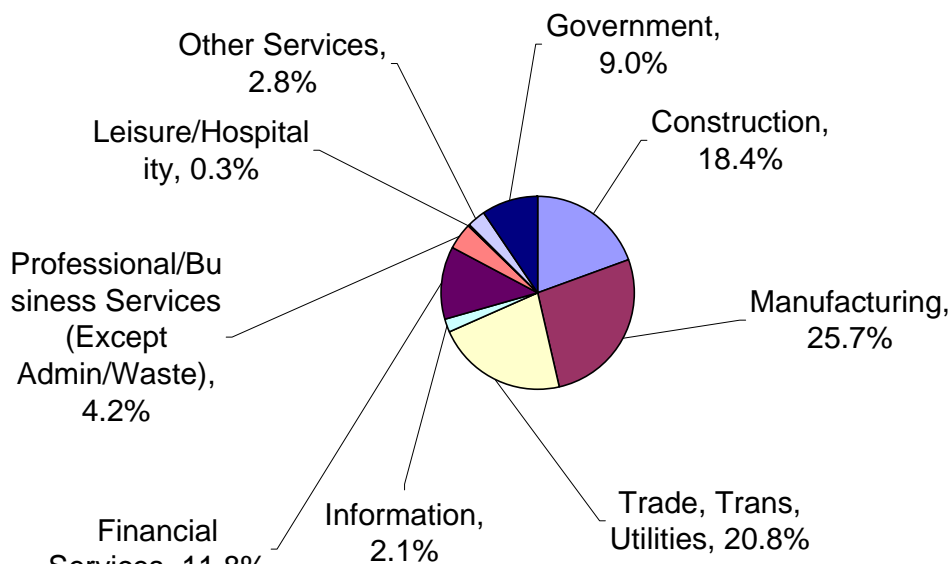
The economic downturn in Rhode Island began in the state's construction sector, in part triggered by a slowdown in housing sales and eventually a combination of both slow sales and price reductions. The construction sector has clearly borne a disproportionate share of the adverse employment effects of the recession. Payroll employment levels in the industry have fallen by 23 percent in the state making construction the most rapidly declining industry as measured by payroll employment declines during this economic crisis and mirroring national developments in construction employment. Indeed, construction employment declines accounted for nearly one-fifth of the overall job losses experienced in the state over the last two years.

Manufacturing employment in Rhode Island has also plummeted since December 2006. Manufacturing firms located in Rhode Island have reduced their payroll employment levels by 14 percent over the course of the state's current economic crisis. The state's manufacturing sector has accounted for 26 percent of the state's job losses. Staffing patterns in construction and manufacturing are dominated by semi-skilled and unskilled blue collar workers, who most often have fewer years of schooling.

A third major industry source of payroll employment declines in Rhode Island is concentrated within the trade, transportation and communications industry sector. The two components of trade—wholesale and retail—is dominated by both blue-collar and clerical workers including cashiers, while the transportation (including shipping and warehousing as well as air, rail and bus travel) and utilities industries also employ large shares of blue collar workers and clerical workers. The trade, transportation and utilities industry (TTU) lost about 7 percent of its pre-recession peak number of jobs through February of this year. These losses accounted for about one-fifth of the total payroll

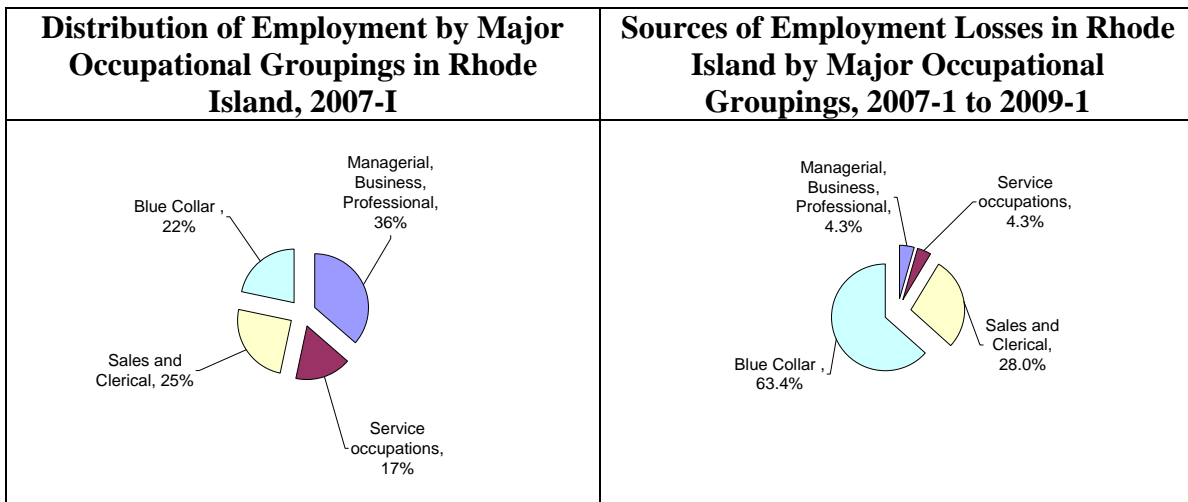
employment losses experienced in the state. Together the construction, manufacturing and TTU industry sectors accounted for about one third (31 percent) of Rhode Island pre-recession payroll jobs, but over the course of the last two years, these three sectors account for two thirds (65 percent) of the payroll job losses experienced in the state.

Share of the Total Wage and Salary Employment Losses by Major Industry Sector in Rhode Island, December 2006 to February 2009



Concentration of job losses in construction, manufacturing and TTU has exerted important impacts on the nature of employment declines in the state. Workers employed in occupations that are disproportionately found in these industries have borne the brunt of the recession. Using the Current Population Survey public use data files, we have made estimates of the occupational sources of employment declines between the first quarter of 2007 and the first quarter of 2009. Our analysis has found that the employment declines in Rhode Island have been overwhelmingly concentrated among workers employed in blue-collar occupations—especially those that require less occupational preparation and skill development for employment.

The data reveal that before the downturn began in 2007 blue-collar workers accounted for just over one fifth of all employed Rhode Island residents. But over the last two years blue-collar workers have accounted for nearly two-thirds of the overall employment declines that have been experienced in the state. Thus blue-collar workers bore three times their expected share of the job loss. Blue-collar employment losses have been especially large in semiskilled and unskilled production occupations, transportation and material moving jobs like drivers and warehousemen, as well as in a number of blue-collar construction occupations including construction laborers. Higher skilled blue-collar occupations such as mechanics and machinists have experienced considerably smaller employment declines than lower skilled workers.



Job losses in the state’s retail trade sector have contributed to sharp employment declines among workers in sales and clerical occupations. The sales and clerical occupations collectively account for an additional 28 percent of the total employment decline experienced in Rhode Island over the last two years while accounting for 25 percent of the state’s pre-recession employment levels. Thus, the two year losses in the sales and clerical area were about in proportion to the share of residents employed in these occupations. Sales workers, cashiers and other office and clerical workers who frequently work in wholesale and retail trade businesses have experienced the brunt of this loss.

While blue collar, sales and clerical workers have been hardest hit by the decline in the level of economic activity in the nation and the state, those employed in managerial, business and professional occupations and in service occupations account for very small shares of overall employment declines. Workers in these occupations are heavily concentrated in the state's service producing industries including professional and business services such as health services and educational services as well as in finance and the information industries. At the beginning of the downturn in early 2007, 36 percent of Rhode Island resident workforce was employed in managerial and professional occupations. Over the next two years employment in these occupations declined by just over 4 percent, thus those employed in managerial and professional fields were largely insulated from the worst effects of the downturn. Health care professionals and educators at the elementary, secondary and post secondary levels have thus not faced the same sort of losses that have impacted workers in blue-collar and clerical/sales fields. Indeed, employment levels in these areas have actually increased over the past two years. In contrast, management and business related professional workers have experienced some employment losses over the course of the downturn.

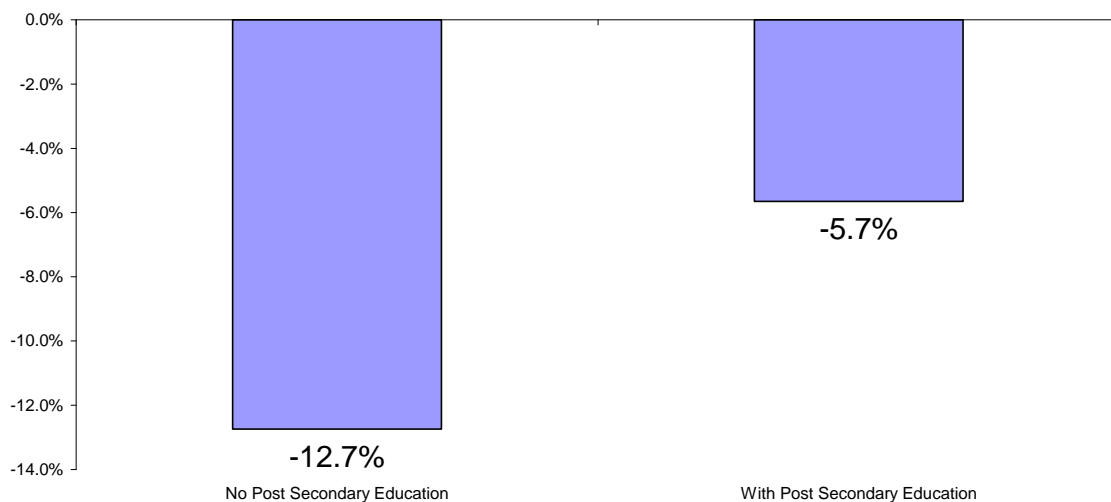
Employment levels in service occupations are closely tied to developments in the professional and business service industry and in the leisure and hospitality sector. Service occupations include a wide variety of positions ranging from health aides to a hotel and wait-staff at eating and drinking establishments. Neither of these industry sectors experienced job losses anywhere near comparable to those observed in construction, manufacturing or TTU. At the initial stages of the downturn, service occupations accounted for about 17 percent of employment in Rhode Island. Over the course of the recession employment among workers in service occupations have declined by just 4.3 percent. Many of the service occupations in the state are characterized by limited weeks (seasonal work) and hours of work (part-time work) over the course of the year, and thus provide lower annual earnings compared to blue-collar and sales and clerical positions.

Various industry and occupational labor market segments have sharply differing education and training requirements. For example, within the manufacturing sector, blue collar employment tends to be dominated by workers with relatively low levels of

educational attainment, primarily high school graduates and dropouts. In contrast, professional workers in health related industries tend to have relatively high levels of educational attainment. Thus the staffing structure of an industry in combination with the industry's overall performance during the economic downturn can combine to concentrate job losses among workers with differing levels of educational attainment.

As we noted above, the worst employment declines in the state were concentrated within the construction and manufacturing sectors where staffing structures are still dominated by semi-skilled and unskilled blue-collar workers. The skill requirements for these jobs are by definition quite low generally requiring only a few days to a few months of on-the-job training in order for workers to develop the skills required on the job. Consequently, the need for formal schooling in these occupations is not high. Indeed, this is frequently reflected in the hiring system's used in many of these fields that rely on

Trends in the Rate of Employment Losses in Rhode Island, by Level of Educational Attainment, 2007-1 to 2009-1 (Persons aged 25+ only)



networks of friends and relatives to find workers with the proper 'work ethic' but rarely rely on connections to the formal education system, since the skills used in many of these fields are learned in a short period of time through on-the-job observation and experience. Disproportionate declines in employment within this industry-occupational labor market

segment means that the demand for workers with fewer years of schooling will fall sharply.

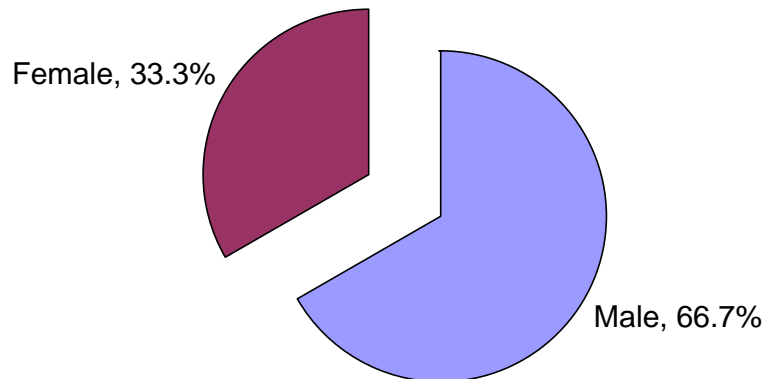
The level of educational requirements among sales and clerical workers who are concentrated in the state's declining TTU sector has also contributed to sharp declines in the demand for workers with lower levels of educational attainment in Rhode Island. The combination of sharp job losses in semi skilled and unskilled blue collar and sales and clerical occupations has resulted in a 12.7 percent decline over the past two years in the number of Rhode Island residents with a high school diploma who are working.

Skilled blue collar jobs stand in contrast to semi-skilled and unskilled positions since they frequently require formal classroom and apprenticeship education and training experiences at both the secondary and especially the post-secondary level. Similarly, the staffing structure of much of the Rhode Island services industry is characterized by intensive employment of professional, technical and managerial occupations that very frequently require some level of post-secondary educational attainment. The comparatively modest rate of employment declines in the state's service sector has meant that the rate of job loss among those with some post secondary education has been much lower than that experienced by those with a high school diploma or less. Employment among persons aged 25 and older with some post secondary schooling declined by 5.7 percent between 2007-I and 2009-I. Workforce participants with a high school diploma or less have experienced a rate of job loss during the current economic downturn that was double that of those workforce participants who had some type of post secondary schooling.

The Demographic Structure of Employment Decline

The current economic crisis in both the nation and in Rhode Island has had widely varying impacts on different population groups. Just as the recession has had especially adverse impacts on workers employed in goods producing industries in blue-collar jobs requiring fewer years of schooling, it also has had particularly substantial adverse employment impacts for key demographic groups in both the state and the nation. Men have borne the bulk of the employment losses that have occurred in Rhode Island since beginning of the current recession in the state. Men are especially more likely to work in

Share of Employment Decline by Gender in Rhode Island, 2007-I to 2009-I

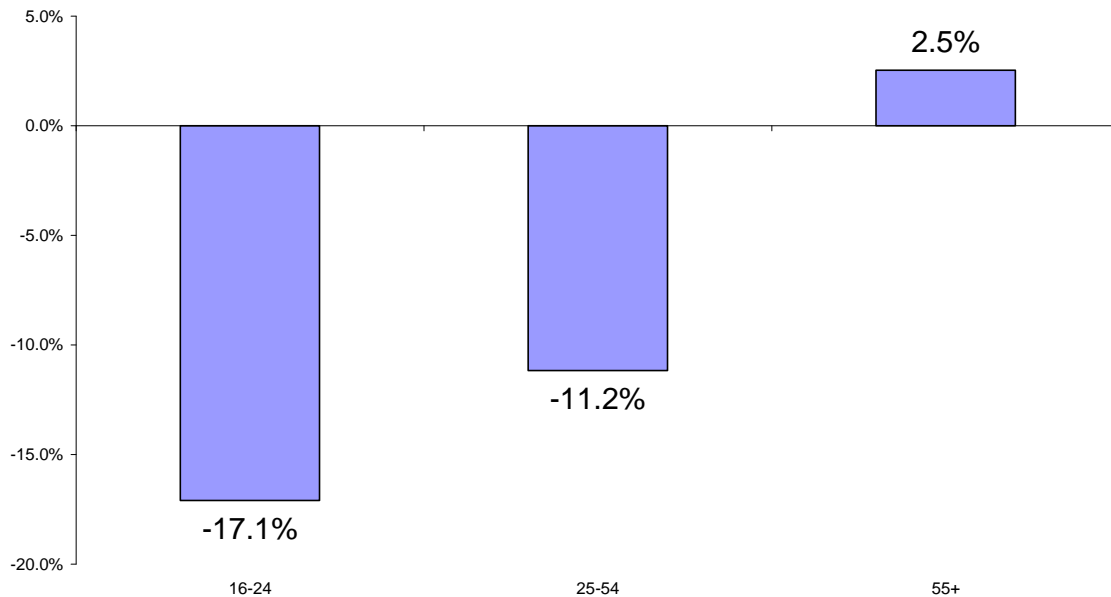


the construction and manufacturing industries as well as in semi-skilled and unskilled blue-collar positions. Employment among men in the state declined by over 12 percent between 2007-I and 2009-I, representing a rate of job loss that was about double that for women over the same time period. Thus, two-thirds of the decline in resident employment that occurred within the state over the last two year has been concentrated among men.²

Employment losses in Rhode Island, like the nation as a whole, also have a particular age structure. Teens and young adults are particularly vulnerable to economic recessions as firm hiring activities slow and staff reductions are often undertaken on the basis of seniority and work experience. Between 2007-I and 2009-I, employment levels among teens and young adults fell by 17 percent as firm hiring activities fell. Young people in Rhode Island have adjusted to this reduction in employment access by partially reducing their attachment to the labor force as they become increasingly pessimistic about their chances of finding work.

² Nationally, the male share of employment losses are even greater accounting for nearly 80 percent of employment declines in the nation over same two year period of time.

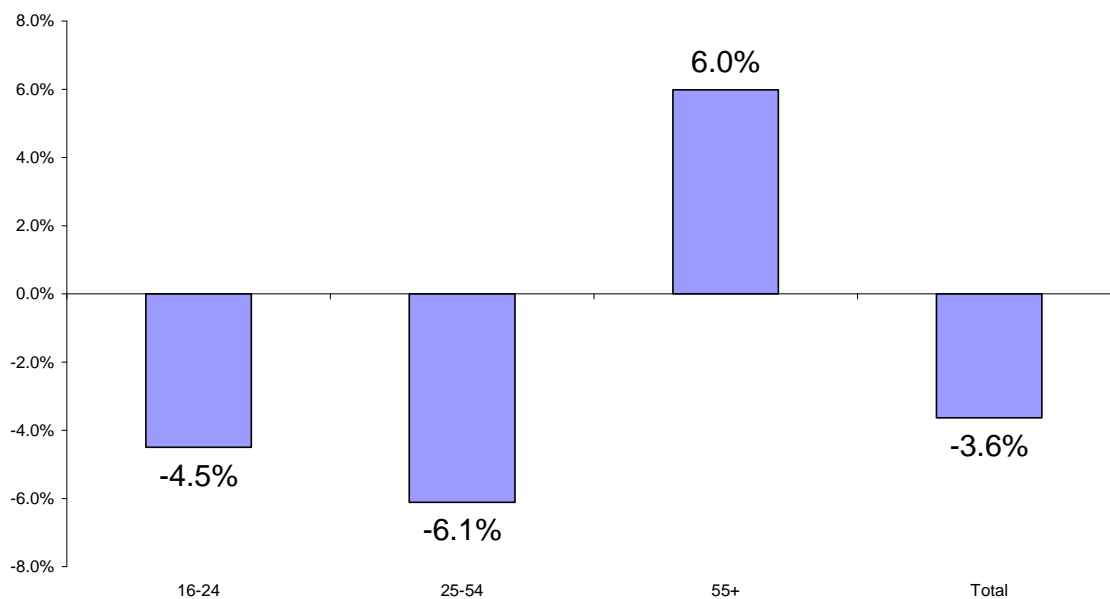
Trends in the Number of Employed Residents in Rhode Island, by Age, 2007-I to 2009-I



Employment among prime age workers has also fallen sharply over the course of the downturn in Rhode Island. The number of Rhode Island resident workers aged 25 to 54 who are employed declined by about 11 percent between 2007-I and 2009-I. A decline of this magnitude among prime age workers is indicative of the unusual nature of the current economic recession. These losses are quite large in terms of both prior economic downturns and relative to the nation as a whole and are symptomatic of the severe nature of the recession in Rhode Island.

Finally and most surprisingly, despite the large magnitude of employment losses experienced in Rhode Island over the last two years, employment among older workers in the state has increased. Employment among workers aged 55 and older increased by about 6 percent in the state over the 2007-I to 2009-I period. Moreover, the number of 55+ unemployed workers in the state has also increased sharply making older workers the only group experiencing labor force growth over the recession. As the overall size of the labor force has declined in Rhode Island over the course of the downturn, the size of the older worker labor force has actually increased by 6 percent.

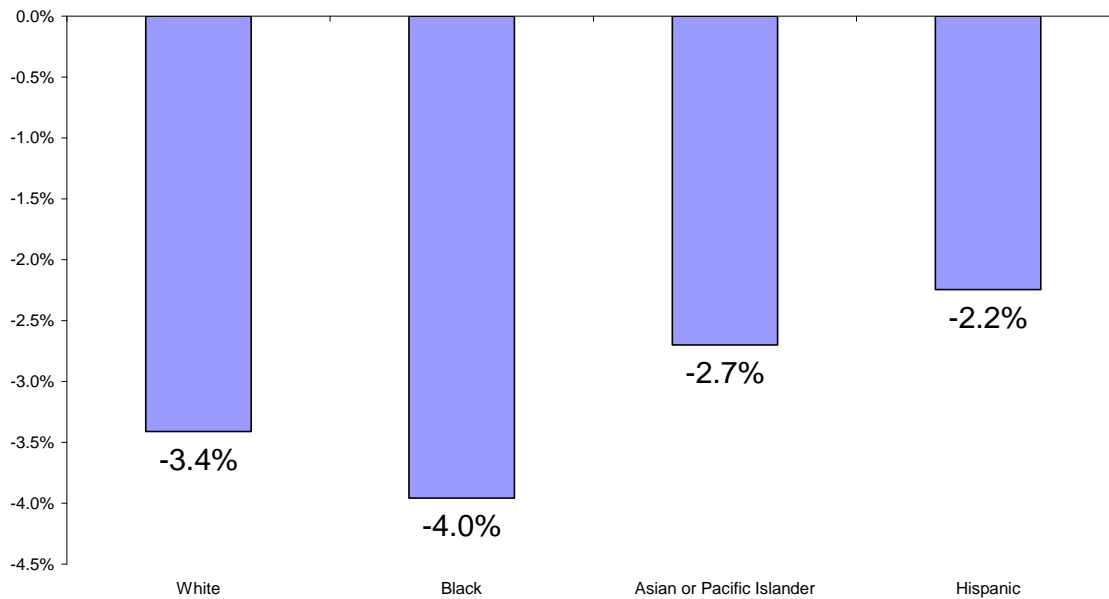
Trends in Size of the Rhode Island Labor Force, by Age, 2007-I to 2009-I



Part of this rise is likely associated with the nature of the current economic crisis. A large share of the nation's wealth is held by persons aged 55+ who have accumulated assets through various forms of savings over their working lives. Most frequently these savings or 'wealth' are held in the form of various defined contribution retirement programs and through real estate holdings frequently in the form of home equity. As both the value of financial assets and housing prices have plunged, especially in the last year, older workers may opt to remain in the labor market and retirees to re-enter the job market in order to offset some of the income losses (both short-term and long-term) associated with the recent extraordinary decline in the value of wealth that has occurred in the nation.³ The impact of the rising labor force attachment of older workers may be that they substitute for teens and young adults and prime age workers as they decide to remain in the labor market for a greater period of time.

³ The Federal Reserve recently reported that the value of household wealth in the nation declined by a staggering \$11.2 trillion. See: http://www.rgemonitor.com/financemarketsmonitor/255977/record_wealth_loss_in_2008_saving_rise

Trends in Employment by Race/Ethnic Group in the U.S. 2007-I to 2009-I



Employment losses in Rhode Island are also likely to vary considerably across race-ethnic groups. Unfortunately, the sample sizes available to us in the CPS survey are simply not large enough to produce reliable estimates of the change in employment by race-ethnicity at the state level. However, it is important to note that at the national level both white and black non Hispanic populations have experienced the highest rates of job losses, while losses among Asians and Hispanics have been somewhat more modest.

Black men have been especially hard hit by this recession. A recent analysis by the Center for Labor Market Studies found that over the last year employment levels among black men have declined by more than 6 percent, the largest relative loss for any race-ethnic/gender grouping in the nation.⁴ Given the disproportionate employment declines we found among males in the nation over the last two years, it is likely that black men in the state have also experienced sharp job losses with the worsening of the economic crisis.

⁴ Andrew Sum, *The Impact of the 2007-2009 National Recession on Male Employment in the U.S Through January 2009*, Center for Labor Market Studies, Northeastern University, February, 2009

Some Implications of the Findings

The findings of our analysis indicate the disparate impacts that the current economic downturn has had on the Rhode Island workforce. It is clear that no group in Rhode Island has been unaffected by the national economic crisis—through both sharp losses in personal wealth or through employment losses. Nonetheless it is equally clear that some parts of the state’s workforce are better insulated from the worst effects of the recession than are others. First, it is clear that the recession in Rhode Island at least by the measure of labor market impacts is blue-collar in nature. Blue-collar workers in construction and manufacturing have borne a hugely disproportionate burden of the downturn. Indeed we found that nearly two-thirds of the employment losses in the state were among blue-collar workers. The collapse of the housing market combined with a severe credit crunch meant that sales of homes and big ticket manufacturing items declined dramatically resulting in a sharp reduction in retail sales—particularly at the end of last year. These developments led to huge blue-collar and to a lesser extent sales and clerical employment losses. These two occupational groups together accounted for more than 90 percent of the net employment losses that were sustained by the state’s workforce. This in turn meant that workers with lower levels of educational attainment, who most frequently work in semiskilled and unskilled blue collar occupations and in retail and clerical positions were much more likely to lose their job than other workers.

Employment in college labor market occupations declined only very modestly and this meant that the rate of job loss among persons with post secondary schooling in the state was only equal to one half that experienced by state residents with a high school diploma or less. Thus workers with fewer years of schooling in Rhode Island have borne a disproportionate burden from the labor market deterioration of the current economic recession. Educational attainment, at least up to this point in the economic crisis, has provided a substantial degree of insulation to a considerable share of the state’s workforce. Indeed, in the professional specialties, which are characterized by a workforce with high levels of educational attainment, employment continued to rise over much of the preceding two years. Educational attainment and occupational proficiencies continue

to be a fundamental determinant of relative success in the Rhode Island economy despite two years of recession.

The second striking finding of our review of labor market developments in Rhode Island over the last two years has been the sharp reduction in employment levels among teens and young adults that have occurred at the same time as employment among older workers has increased. Employment levels among those aged 16 to 24 have fallen by more than one sixth over the past two years. This development in the state follows national trends of sharp reductions in teen and young adult employment over the past few years. Sadly, the proportion of teens employed in the nation has reached the lowest level since we began its measurement in 1948.

Declining work activities for young people have long term adverse economic consequences. Early work experience bolsters the productive abilities of teens and young adults in ways that are similar to additional schooling. Early work experiences can help develop labor market savvy associated with job search and career decision making as well as augment a wide variety of behavioral traits valued by employers. Declining employment rate for today's youth means reduced productivity in tomorrow's economy.