April 28, 2021 **Policy Brief: Volume 21, Number 16**

State's lackluster job performance needs help not hindrances

Summary: As the pandemic loosens its grip and lockdowns begin to ease in Pennsylvania, the economy appears to be strengthening. However, job growth remains a concern despite a small pickup in employment from February to March. Indeed, the latest statewide employment report for March shows there is still a long way to go and that it is incumbent upon commonwealth lawmakers not to throw more growth-stifling regulations at beleaguered business owners that will stymie a return to solid gains.

Employment levels

According to the U.S. Department of Labor data for establishment payrolls, there were 5.625 million nonfarm jobs across Pennsylvania in March 2021, the lowest March reading since 2010 and 375,000 (6.3 percent) fewer than the 6.0 million posted 12 months earlier. Keep in mind that March 2020 was the start of the lockdowns that caused many businesses to either close or severely restrict operations and production in many industries. Thus, the posted March 2020 tally is not the most useful measure to evaluate the current year jobs count.

Note that both January and February of 2020 showed moderate job gains compared to year-earlier totals (0.80 percent and 0.78 percent respectively). It is very likely that, absent the pandemic and lockdowns, March 2020 job gains would have continued that trend and nonfarm employment would have reached 6.057 million. That would have been the largest March jobs total ever recorded and would have represented a decade gain of 516,000 jobs.

Using this no-pandemic estimate for March 2020 puts the year-over-year decline in March 2021 at 432,000 or 7.1 percent, which is a better measurement of the pandemic effect. Looking at a longer-term comparison, the jobs total in March 2021 was only 84,000 ahead of the March 2010 level compared to a 468,000 rise between March 2010 and March 2019. Thus, the state had 384,000 fewer jobs last month than it had two years earlier.

Overall, jobs can be divided into two super sectors—goods-producing and service-providing. There are three goods-producing sectors, mining and logging, construction and manufacturing. They account for about 14 percent of the total nonfarm jobs in Pennsylvania. From 2016 to 2019 there was monthly year-over-year growth in the goods producing super sector for nearly every month (except January 2017) until September 2019 after which the monthly year-over-year job numbers began to decline and continue to do so.

In March 2021 there were 797,200 goods-producing jobs, a decline of 5.1 percent from the previous March (839,700). But when compared to the last pandemic-free March (2019), the drop was greater at 6.0 percent (848,300). The March 2021 reading is the lowest number since the great recession year of 2010.

Within the goods-producing super sector all three sectors had year-over-year losses in March 2021, the mining and logging sector lost the largest percentage at 16.6 percent. When compared to March 2019 the losses are even greater at 28.5 percent.

The service-providing super sector had 4.8 million jobs in March 2021, about 85.6 percent of jobs in the commonwealth. The sectors in this category include trade, transportation and utilities; information; financial activities; professional and business services; education and health services; leisure and hospitality; government and other services.

While all service-providing sectors experienced job losses on a year-over-year basis, the hardest hit continues to be the leisure and hospitality sector. For March 2021 there were 420,800 leisure and hospitality jobs across the commonwealth—a drop of 21.5 percent over last March. But compared to the pre-pandemic March 2019 count of 554,700, which was the highest job total for any March this century, the job count in March 2021 was 24 percent lower. The March 2021 figure is the lowest March amount since at least 2000 when there were just 442,400 jobs. This sector had been steadily growing for at least two decades until the lockdowns were ordered at the start of the pandemic. This sector is still under capacity restrictions, more than a year later.

Given that the number of total nonfarm jobs in Pennsylvania has declined every month (on a year-over-year basis) for 13 straight months, how long will it be before the jobs count climbs to levels reached in the pre-pandemic months? Obviously, as the number of vaccinations continues to increase and consumer demand rises, because of enormous federal stimulus checks, unemployment subsidies and propping up of state and local government spending there should be a significant pickup in job totals. Although as has been discovered, the unemployment supplements are suppressing the return of workers to the job market. Some sectors, such as leisure and hospitality, will take longer than others to rebound fully.

In that regard, the recent spring business climate survey from the Lincoln Institute shows that optimism for the immediate future among business executives is muted.

Business climate survey

The Lincoln Institute's Spring 2021 Business Climate Survey recorded the responses of 199 owners/executives/managers of businesses from across the commonwealth to various questions about the state of Pennsylvania's economy. The responses reflect the employment data—sluggish growth that is unlikely to rebound quickly as businesses across the state try to recover from the pandemic lockdowns.

The most general question asked was if they thought "Pennsylvania's economy is on the right track or wrong track?" While 31 percent of the respondents replied that the state is on the right track, the majority (61 percent) indicated that the economy is on the wrong track (8 percent offered no opinion).

Another question asked if their business has recovered from the pandemic lockdowns. Of those responding to the survey, 47 percent indicated they had partially recovered while 21 percent claim to not have recovered at all. Only 10 percent said they had fully recovered.

Regarding future employment levels at their company, 58 percent of respondents say employee counts are expected to remain the same six months in the future while 25 percent plan to increase those levels. About 9 percent foresee reducing employment levels.

The next question asked about the optimism of these decision makers over the next six months. Optimism is muted with just 35 percent of respondents believing that business conditions will be better than this spring while 43 percent indicated it will remain the same. Seventeen percent think business conditions will be worse.

There were some concerns regarding some of the governor's plans that include; raising the personal income tax, joining the Regional Greenhouse Gas Initiative (RGGI) and raising the minimum wage to $15 per hour. On each of these three gubernatorial initiatives, high percentages of respondents expressed somewhat or strong opposition—78 percent for the increase to the personal income tax, 67 percent for the RGGI and 70 percent for the increase to the minimum wage.

There was a follow-up question regarding the minimum wage. The respondents were asked if they had taken steps to reduce reliance on minimum-wage employees. Of the 196 respondents to this question, 105 noted that they didn't have minimum-wage workers. Of the remaining 91 survey takers, 49, or 53.8 percent, indicated that they had taken steps to reduce reliance on minimum-wage workers.

That's an important point. Low-skilled and entry level workers rely on that first step of the career ladder to gain the skills and experience necessary to be successful and move up in the workforce. Proponents of increasing the minimum wage don't see the unexpected consequences of a forced hike—such as businesses substituting away from minimum-wage labor most likely with technological advances such as self-serve kiosks or even a reduction in hours worked.

An increase in the personal income tax could have two consequences. First, it would reduce the disposable income of customers and, secondly, these business executives would also pay the increase, thus reducing their own disposable income. Joining the RGGI and increasing the minimum wage will increase the cost of doing business and increase costs at a time when most businesses are still struggling with the pandemic and the continued business restrictions.

Earnings growth in Pennsylvania

The U.S. Bureau of Labor Statistics provides data on average hourly earnings for total private employees, employees in both the goods-producing and private service-providing super sectors as well as a few other sub-sectors beginning in 2007.

Statewide, the annual average hourly wage for total private employees in 2010 was $21.21. By 2020 that had risen by 28.7 percent to $27.30. For employees in the goods-producing super sector that wage was $22.90 in 2010 and rose by 26.7 percent to reach $29.02 in 2020. For employees in the private service-providing sectors, the wage was a somewhat lower ($20.81) but increased at a faster rate (29.3 percent) to reach $26.90 in 2020.

Minimum-wage earners are most likely to be found in the private service-providing sectors such as retail and in the leisure and hospitality sectors. For the trade, transportation and utilities sector, which includes the sub-sector retail, the average annual hourly wage came in at $18.89 in 2010 and climbed to $24.14 in 2020—an increase of nearly 28 percent over the decade. For the leisure and hospitality sector, which includes hotels, restaurants and those that work at entertainment venues, the average annual wage was $12.41 in 2010 and rose 25 percent to $15.53 in 2020.

And, of course, a statewide mandate ignores the different cost of living in each metro area. Furthermore, rates will differ by county and municipality in the metro area as well. For example, in Philadelphia (Pennsylvania metro division) where the cost of living is highest in the state, the 2020 average annual hourly wage for total private jobs is $30.79. But in Pittsburgh it's a bit lower at $27.01. In the northwest corner of the state, the Erie metro's rate is $21.68 while the Altoona metro area has an average annual hourly rate of $20.34.

Wage mandates that require higher-than-market rates interfere in the labor market by artificially increasing the cost of labor to business and thereby lowering the demand for labor unless costs can be fully passed on to the customers. Indeed, minimum-wage supporters argue business will pass the cost onto the consumer in the form of higher prices or take smaller profits. But what if the business is constrained by competition? They may seek to substitute capital (machines and technology) for low-skilled labor or begin to reduce the hours, thereby making low-skilled labor possibly worse off.

And in a workplace with a several wage tiers based on experience and job responsibilities and which have some workers at or near the current minimum, raising the minimum wage will create enormous pressure to raise the wages of other employees in order to maintain an appropriate differential for skill and responsibility. Businesses offering non-wage benefits could be forced to cut them back.

Entry level, low skill jobs are not family supporting jobs. Trying artificially to make them family supporting is never going to work as long as there is any freedom left in the competitive marketplace. Businesses will not thrive and eventually tax bases get eroded.

Frank Gamrat, Ph.D., Executive Director   **Jake Haulk, Ph.D., President-emeritus**

Allegheny Institute for Public Policy
305 Mt. Lebanon Blvd.* Suite 208* Pittsburgh PA 15234
Phone (412) 440-0079
E-mail: aipp@alleghenyinstitute.org
Website: www.alleghenyinstitute.org
Twitter: AlleghenyInsti1