
What's Hampering Job Growth in the District's Services Sector?

By Ricardo C. Gazel and Chad R. Wilkerson

Employment growth in the Tenth District has fallen behind the national rate in 1999 for the first time in ten years. Although all economic sectors have been experiencing slower job growth, the services sector, due to its size, has played perhaps the most important role in the slowdown of overall employment growth in the district. While services employment elsewhere in the nation continues to grow rapidly, the district has witnessed very little job expansion in services so far in 1999 (Chart 1). In fact, the district services sector has added jobs during the first seven months of this year at less than a third of the rate enjoyed by the nation as a whole.¹

What is behind the slowdown in services employment growth? Are firms in this area creating fewer jobs because they are facing difficulties in selling their services in local, national, and international markets? Or are firms unable to find enough workers with the sets of skills and wage demands they consider reasonable?

What is the services sector?

The classification of economic activity as "services" is not as straightforward as "manufacturing," "construction," or "retail trade." Moreover, sectors such as "finance, insurance, and real estate," and "transportation, communications, and public utilities," provide services but are not classified as "services" in government employment and output data. So what exactly is the services sector?

¹ See "Tenth District Economic Update: Are the Good Times Over?" in this issue of the *Regional Economic Digest*. Services job growth in the district from December 1998 to July 1999 measured less than 0.7 percent, compared with 2.2 percent growth in the nation.

The services sector is often divided into two sub-categories, *producer services* and *consumer services*. Producer services make up roughly a third of services employment. They include business services such as computer software and programming, data processing, accounting, and advertising, as well as professional services such as legal counsel, architecture and engineering, and management consulting. Producer services in both the district and the nation have expanded rapidly in the 1990s, averaging around 6 percent annual employment growth.²

Consumer services include health care (27 percent of district services employment) and numerous smaller industries like private education, child care, recreation services, hotels, and personal services such as dry cleaning and beauty shops. Consumer services employment as a whole has grown much more slowly than producer services employment in the 1990s, averaging just under 4 percent annual growth, but still faster than the rest of the economy. Because of the unique nature and large size of the health care industry, it is treated as a separate category from other consumer services in this article.

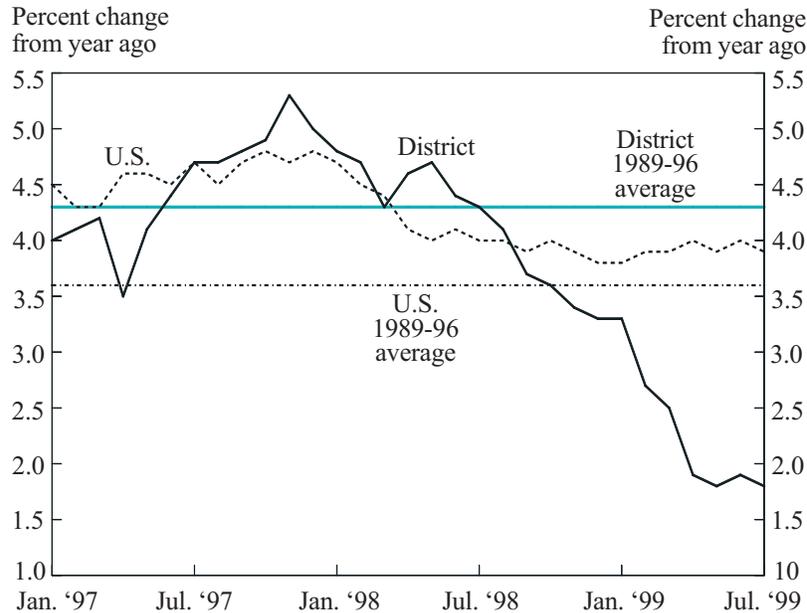
Supply or demand?

All of the district's main services categories have suffered sizable slowdowns in job growth in 1999 (Charts 2, 3, and 4).³ Growth in the number of jobs in

² The reasons most often given by analysts for the strong growth of producer services jobs in the 1990s include outsourcing by firms of many functions and the rapid rise of technology-based jobs in general.

³ Because Kansas does not break out services employment into enough smaller categories to distinguish producer and consumer services, the "district" here refers to the other six states. These six states represent 87 percent of total services employment in the district.

Chart 1
Total Services Employment



producer services has slowed dramatically over the last year and a half, from annual growth of around 8 percent at the end of 1997 to less than 3 percent in July 1999. Similarly, job growth in health services has slowed substantially in recent years, falling from a solid 3.1 percent rate of growth in December 1997 to 0.5 percent in July. Other consumer services have only recently seen a falloff in employment growth, dropping from a strong 4.1 percent in January 1999 to 1.3 percent in July.

Much of the evidence suggests that the services slowdown is due primarily to labor supply constraints rather than to a large decline in demand for services. Most businesses in the region continue to report good conditions with strong demand for their services, despite stiff domestic and international competition. Furthermore, consumer confidence and spending around the country have remained at very high levels. On the other hand, labor market data, newspaper articles, and other sources of anecdotal information suggest a widespread labor shortage around the district.

Why has the tight labor market hit the services sector so hard? Many positions within producer services are among the most highly skilled jobs in the economy and are thus difficult to fill quickly in such a tight labor market, regardless of how well-paid those jobs are. Additionally, many consumer services positions, especially those in child care and private education, require more training and screening of applicants than most jobs, for example, in retail trade. This reality may help explain why employment growth in the district has slowed more quickly at consumer services firms than at slightly lower-paying retail establishments.

Which states?

Further supporting the labor-supply-shortage argument is the fact that the sharpest slowdowns in services job growth in the district over the past year have occurred where labor markets are tightest. Gains in services job have slowed markedly in 1999 in all district states except New Mexico, where unemployment levels are among the highest in the

Chart 2
Producer Services
 (33 percent of district services employment)

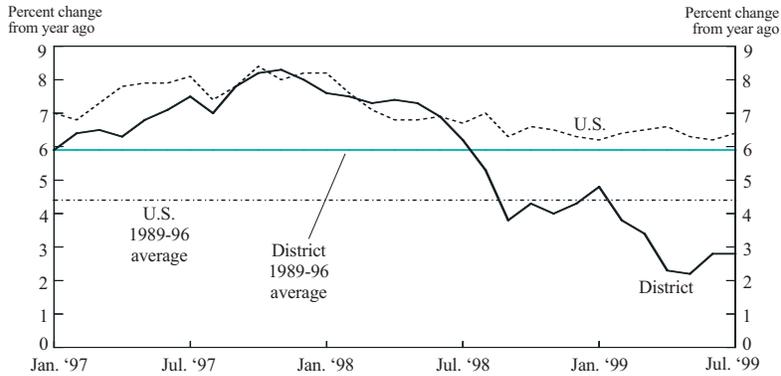


Chart 3
Health Services
 (27 percent of district services employment)

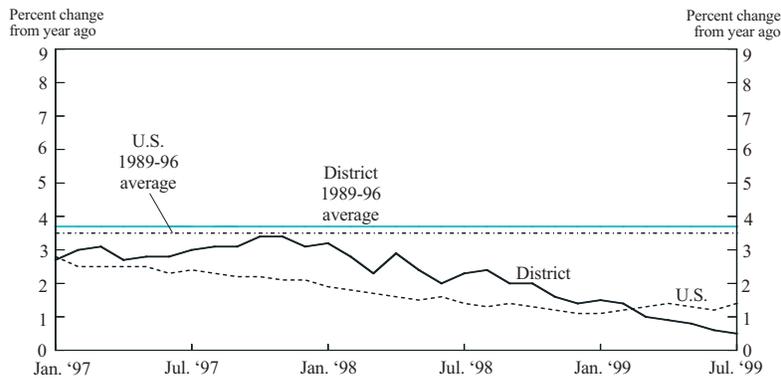


Chart 4
Other Consumer Services
 (40 percent of district services employment)

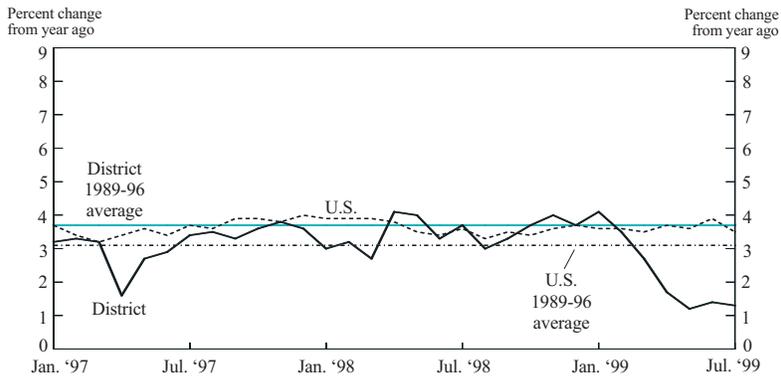


Table 1
Services Employment Growth
 July 1999

	Change from a year ago (percent)
United States	3.9
Tenth District	1.8
New Mexico	4.0
Oklahoma	3.7
Kansas	2.5
Colorado	2.3
Wyoming	.8
Missouri	.3
Nebraska	-.7
Oklahoma City	3.4
Tulsa	3.3
Albuquerque	3.1
Denver	1.7
Kansas City	1.4
Wichita	.5
Omaha	-1.3

country (Table 1).

In both Nebraska and Missouri, the number of services jobs has actually declined since December 1998. This perhaps is not surprising, given Nebraska's extremely low unemployment rate and Missouri's lack of labor supply growth over the past couple of years.⁴ Services job growth in Colorado and Kansas has also slowed considerably in 1999, with year-over-year job gains in both states measuring just over half the national rate for July. Like Nebraska, unemployment rates in Colorado and Kansas have been well below the national average in recent years. In addition, it has been increasingly difficult for firms in Colorado, Kansas, and Nebraska to fill services jobs because of their already high labor force participation rates (the share

⁴ Nebraska's unemployment rate has not been above 3.0 percent since March 1994, and the number of people in the labor force in Missouri was practically the same in July 1999 as it was at the beginning of 1997. During that same time, the national labor force grew by 2.7 percent.

of the adult population working or looking for work).

In Oklahoma, where July unemployment was just 3.4 percent, there has also been a sizable slowdown in services job growth in 1999. But the falloff in Oklahoma began from a very high level and year-over-year employment growth was still similar to the nation in July. In addition, the labor force participation rate in Oklahoma is considerably lower than in most other district states, meaning a larger pool of potential workers could be tapped in that state so long as they can receive or already have the training needed for open job positions.

Which cities?

Services employment in most district metropolitan areas has fallen considerably in 1999 from the high growth levels posted in the mid-1990s. Services firms are generally more concentrated in urban areas, where unemployment rates are currently very low. In the Tenth District, over 63 percent of the services jobs are located in large metropolitan areas, compared with 55 percent of all other employment.⁵ High-tech services industries are especially concentrated in a few district cities. According to a July study by the Milken Institute, three Colorado metropolitan areas—Boulder-Longmont, Denver, and Colorado Springs—ranked in the top ten U.S. metropolitan areas (out of 315) in concentration of high-tech services output in 1998.⁶ Kansas City was ranked thirteenth, the only other district city in the top 25.⁷

No district metropolitan area with a population

⁵ Estimate. The "district" here includes parts of Missouri and New Mexico that are not in the Tenth District, due to using state-level employment data. In addition, large metropolitan areas include small parts of the Omaha and St. Louis MSAs located in Iowa and Illinois, which slightly overestimates metropolitan areas' share of services employment in the district.

⁶ The Milken Institute study (July 1999) considered the following services industries "high-tech": telephone communications services (SIC 481); computer programming, data processing, and other computer related services (SIC 737); motion picture production and allied services (SIC 781); engineering, architectural, and surveying services (SIC 871); and research, development, and testing services (SIC 873).

⁷ Albuquerque and Wichita also earned "high-tech" labels in the Milken Institute study, but as Top 25 high-tech manufacturing centers rather than services centers. Albuquerque, a large producer of electronic components and accessories, ranked third in concentration of high-tech manufacturing output in 1998, while Wichita, with its many aircraft and aircraft parts plants, ranked thirteenth.

greater than 500,000 had a services sector that was growing faster than the national average in July. Denver, Kansas City, and Omaha, the cities with the three tightest labor markets in the district, have experienced the greatest falloff in services job growth over the past two years, as might be expected (Table 1).

While most district cities have seen a sizable decline in services sector growth in 1999, job gains in nonurban areas (including rural areas and small and medium-sized cities) have also been small. The skill levels required for many services jobs, particularly producer services jobs, likely cannot be found in the already small labor pool available to employers in many of these parts of the region.

Conclusions

After leading the Tenth District in job creation throughout most of the 1990s, the region's large ser-

vices sector hit a snag in 1998. Through the first seven months of 1999, services employment in the district has grown less than a third as fast as in the nation.

Most of the services sector's difficulties can be traced to the region's extremely tight labor markets. The services industries experiencing some of the sharpest slowdowns are high-skilled producer services, such as information technology and management consulting, which have suffered from the greatest shortages of labor in recent years. Moreover, the areas having the greatest problems with services job expansion are generally those with the lowest unemployment rates and highest labor force participation rates.

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