



Persistent Differences

Unemployment trends among U.S. metro areas

In his recent research, Kansas City Fed economist Jordan Rappaport says the correlation between jobs growth and unemployment declines is not necessarily true for all metropolitan areas.

“If they are below the national unemployment rate today, most likely they will be below the national rate 10 years from now,” he said. “If they are above it today, they will most likely be above it 10 years from now.”

Unemployment rates differ widely across U.S. metropolitan areas.

In 2007, they ranged from 3.1 percent or less among the 25 lowest unemployment metros to 6.6 percent or more among the 25 highest unemployment metros.

Moreover, Rappaport said, those metro areas that had a relatively high unemployment rate in one year tended to have a high unemployment rate 10 years and even 20 years later.

The city of Merced, Calif., had an unemployment rate above the median from 2000 to 2007, and then had extremely high

unemployment throughout 2007, despite being the fastest growing city in that state since 1980.

There was a subgroup of metros that showed a strong correlation between jobs growth and declines in the unemployment rate, but Rappaport said that was a small group, less than 15 percent of the metros studied. On average, more jobs or fewer jobs didn’t mean a change in the unemployment rate.

The unemployment growth rate in Omaha, Neb., remained below the median of about 1.5 percent from 2000 to 2007, and remained lower than the median unemployment rate throughout 2007. But the city also experienced low job growth during those same times.

There are several possible reasons for why some metros have persistently high unemployment and others have persistently low unemployment. One obvious reason is the long-term growth or decline of a metro area’s industries.

Among the others, the characteristics of the workforce appear to be the most important. Such people-based characteristics include

workers' industry- and occupation-based skills and experience, educational attainment, their English language skills, and their general level of work experience as in relation to their age.

While persistently high relative metro unemployment rates often do partly reflect the long-term decline of its prevalent industries, people-based characteristics also play a central role. The reason is that in response to declining metro employment, workers often can move to other metros in search of a job. Alternatively, if workers laid off from declining industries have skill sets in high demand elsewhere, businesses are likely to move in to be able to hire workers that meet their needs.

If laid-off workers have skills that are in low demand elsewhere, there would be little demand for them to move elsewhere or for firms to move in.

Rappaport argues that it is this latter mismatch between metro area worker skills and the workforce needs of employers through the remainder of the United States that accounts for persistently high unemployment.

For example, a metro area with a large share of its workforce employed in light manufacturing will naturally have a large share of its workforce with the associated skills. As light manufacturing activity gradually moves overseas, newly laid-off workers will find it difficult to find a new light manufacturing job either in the metro area itself or anywhere else. Repeated over time, this dynamic plays a large role in driving persistent metro unemployment.

Another cause of persistent unemployment among metros is the migration effect. An example is an auto manufacturing plant constructed in a metro area with a declining jobs growth rate. Most of the new employees lived elsewhere before gaining employment with the plant. So even with the new jobs, the metro area saw little change in the unemployment rate because there were more workers than available jobs.

Rappaport found that metros that had this experience usually had negative employment from 1990 to 2000 and saw no change to that status even with jobs growth in the 2000s.

And in some instances, the unemployment rate grew.

"The most important point from these decompositions is that net job changes have a relatively small effect on metro unemployment when they are positive," he said.

Moving costs may also explain why some unemployed workers tend to stay in metros with fewer job opportunities, which contributes to that metro's persistent high unemployment rate, Rappaport said.

And in some instances, firms are unwilling to pay for the relocation of workers, especially for low- to mid-level-paying jobs.

Another explanation why some metro areas may not see an increase in jobs growth is location—some metros, either due to weather, geographic location, lack of attractions and amenities or other reasons, may not attract workers or jobs.

Also, workers living in high unemployment metros may decide not to move to a metro with better job prospects because they don't want to leave behind their support networks, such as family, friends and other social ties.

Rappaport says the aforementioned characteristics show there's more to a metro area's unemployment rate than just the lack of jobs growth.

Maximizing U.S. wealth creation depends in part on achieving the best match between workers and jobs. Enhancing the geographic mobility of workers could help achieve this, Rappaport said.

This may take government assistance, which is something voters may not agree with, he added. It also may take businesses investing in training of workers to fit hiring needs and paying for workers' moving costs.

FURTHER RESOURCES

"Why Does Unemployment Differ Persistently Across Metro Areas?"

by Jordan Rappaport

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