

# THE *Rocky Mountain* ECONOMIST:

*Economic information for Colorado, New Mexico and Wyoming*



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## *Measuring the Government Drag on Mountain State Job Growth*

*by Kate Watkins, Assistant Economist*

During the recovery from the 2007-09 recession, the nation has experienced a familiar counter-cyclical trend in government employment. While the private sector is slowly adding jobs in most industries, federal, state and local government sectors continue to lose jobs in many areas. At the federal level, the employment spike of the 2010 Census has come and gone, the Postal Service continues to consolidate operations, and fiscal austerity has come into view. At state and local government levels, budgetary pressures continue amid sluggish tax revenue growth and cutbacks in federal funding. This issue of the *Rocky Mountain Economist* explores the government sectors of Colorado, New Mexico and Wyoming and measures the impact of recent government job losses on these mountain state economies.

### GOVERNMENT EMPLOYMENT IN THE MOUNTAIN STATES

Wyoming and New Mexico are among the states with the highest shares of government jobs relative to total employment (*Chart 1*). In these states, about one in every four jobs is in the public sector, while the number

is closer to one in six for Colorado and the nation on average. Why do they have a higher share? And what jobs make up the government sector in these states?

For **Wyoming**, much of the higher share is explained by the size of the state. Wyoming is the smallest state in the nation in terms of both its population and labor force. As the state's economy has grown and diversified, its share of government jobs has fallen from 28 percent in the early 1990s to a low of 23 percent in the months



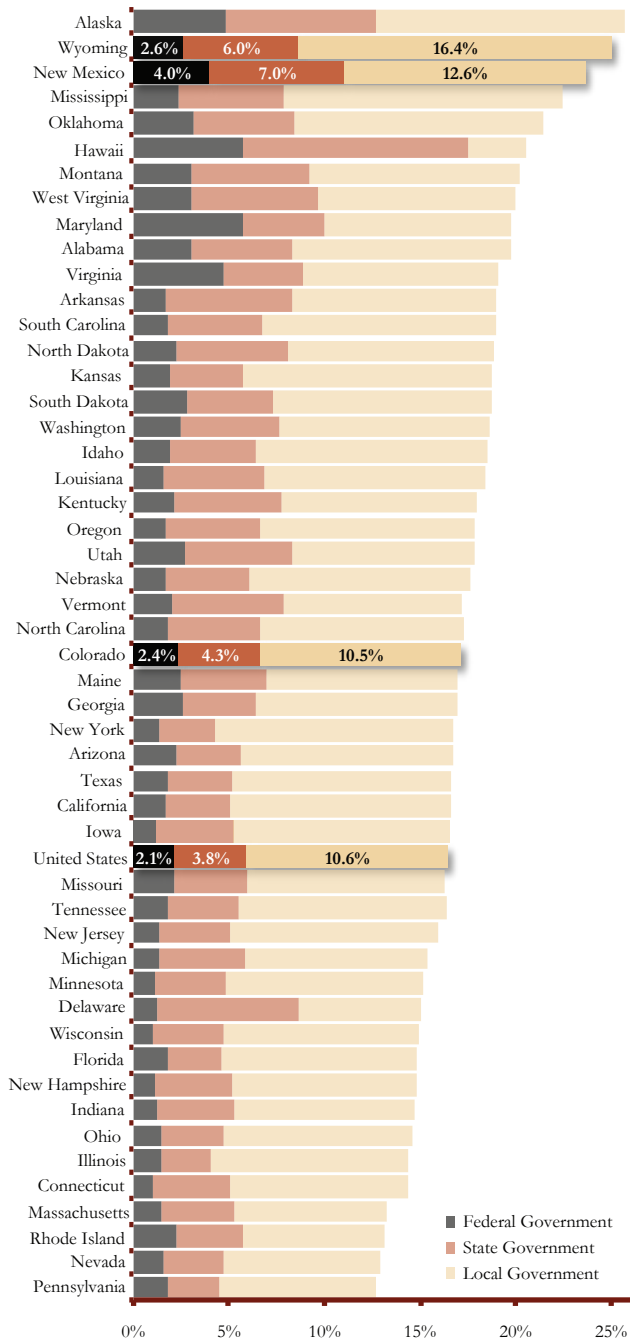
*Dr. Alison Felix joined the Denver Branch of the Federal Reserve Bank of Kansas City this summer as Assistant Vice President and Denver Branch Executive. In this role, Alison is the Federal Reserve Bank of Kansas City's regional economist and lead officer in the states of Colorado, Wyoming and northern New Mexico. She is responsible for briefing the Kansas City Fed's president on business activity in these states. Alison looks forward to presenting research and analysis in future issues of the Rocky Mountain Economist.*



## CHART I

### Government Share of Total Nonfarm Employment, July 2012

Seasonally Adjusted



Source: Bureau of Labor Statistics, Current Employment Statistics

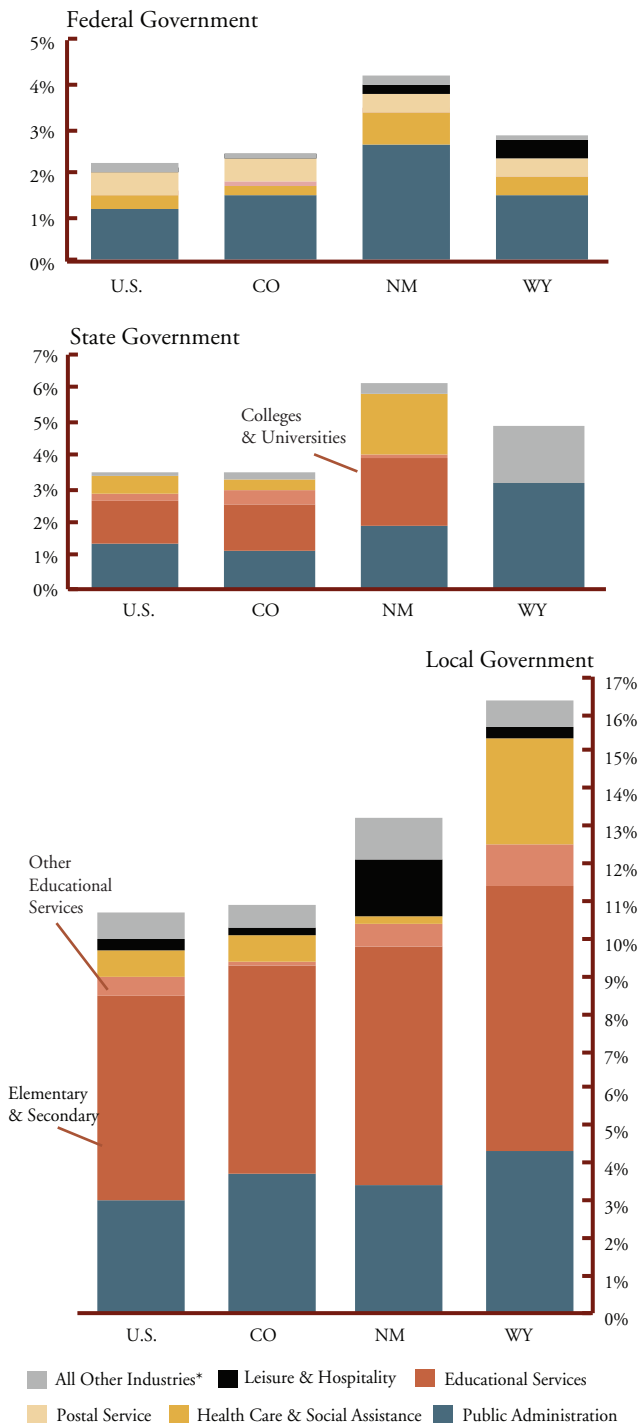
preceding the 2007-09 recession. Wyoming has a higher share of employment than the nation at all levels of government. Like most states, the majority of the government jobs are local government positions, with elementary and secondary schools and public administration programs comprising the largest shares (Chart 2). Additionally, the state has a larger share of healthcare and social assistance employment than the nation. Home to Grand Teton and Yellowstone national parks, Wyoming has a larger share of federal government employment concentrated in the leisure and hospitality industry. The state government share is slightly higher than the nation due primarily to a higher share of public administration positions.

Relative to the nation, the government sector also represents a higher share of total jobs in **New Mexico** at all levels of government. At the federal level, the state has a large concentration of federal healthcare facilities, including Veterans Affairs hospitals. Additionally, the state is home to a cluster of federal research laboratories, which has elevated its share of public administration positions in national security and environmental programs. The Los Alamos and Sandia National Laboratories are government-owned, contractor-operated facilities and therefore employ a large number of private sector employees that are not included in the government numbers but are federally funded. State hospitals, social assistance programs, and colleges and universities are responsible for a higher share of state government employment relative to the nation. And at the local government level, New Mexico employs a comparatively large number of leisure and hospitality workers, staffing various tourism and recreational facilities across the state.



## CHART 2

### Government Jobs as a Share of Total Employment, 2011



Source: Bureau of Labor Statistics, *Quarterly Census of Employment and Wages*  
 \*Unavailable data for Wyoming state government industries are included under this category.

**Colorado's** share of government employment is just above the national average, with a composition of government jobs very similar to the nation. While Colorado serves as a hub for many federal government regional headquarters, research labs and military installations, the size and diversity of the Colorado economy makes for a smaller government share of employment. Within the Denver metro area resides regional headquarters for the General Services Administration, the Department of the Interior, and the Census Bureau. Colorado is home to the National Renewable Energy Laboratory, the National Center for Atmospheric Research, and a number of national parks, military bases and federal lands, all of which provide federal government jobs.

### BUCKING THE TREND IN RECESSION AND RECOVERY

Historically, government job growth has been counter-cyclical to economic downturns. Meaning, when economic activity is contracting and the private sector is losing jobs, government employment has historically grown. Conversely, when the economy begins to recover, the government sector loses jobs, posing a drag on economic activity. A number of factors explain this trend. For one, demand for government services tends to rise during economic downturns and fall in recovery. Second, state and local government budgetary pressures are typically delayed by a year or more due to the timing of tax collections and use of temporary funding sources to fill budget shortfalls.

**Demand rises during downturns.** Demand rises for government services and social "safety net" programs during economic downturns as the number of unemployed rises and wages fall. This rise has historically prompted government hires to administer needs-based funds and offer services for programs with higher caseload growth.



Needs-based programs, including unemployment insurance, Temporary Assistance for Needy Families (TANF), free and reduced lunches for school-aged children, and Medicaid, all experience caseload growth during downturns. At the state level, enrollment in higher education institutions has been a particularly strong driver of government job growth during downturns. With the rise in unemployment, many remain in or return to school for training, requiring additional faculty and staff for instruction and support services.

**Tax collections lag the downturn.** Many tax revenue sources are collected with a significant lag, pushing the budgetary impact of a recession out by a year or more for state and local governments. Income and property taxes, which comprise large shares of state and local government tax revenue, serve as prominent examples. When incomes decline during a recession, state and local governments may not feel the budget impacts of decreases in income tax revenue until taxes are due in the following year. The timing of property tax assessments coupled with the lag in property tax collections can postpone the impact of home price depreciations on tax collections by two or more years.

**Temporary fixes delay budget pressures.** State and local governments have historically relied on federal fiscal stimulus funds, rainy day funds and fund transfers to offset temporary declines in tax revenue. These one-time sources of money can offset budget shortfalls, allowing state and local government to grow during recessions. However, these options serve as only temporary fixes. When funds are exhausted, governments must again rely on the growth of tax and fee revenue to meet budgetary requirements.

## GOVERNMENT GROWTH IN THE 2007-09 RECESSION

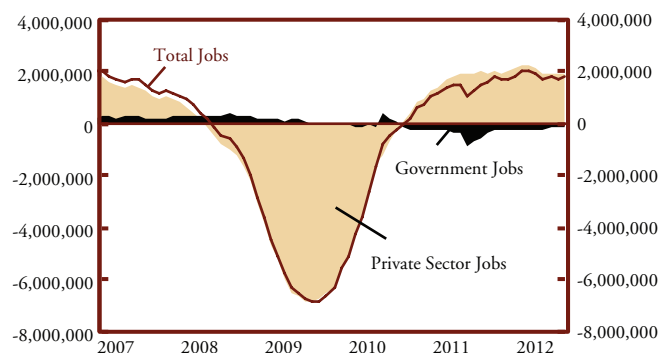
The experience of the 2007-09 recession and recovery

in many cases exemplifies historical trends of countercyclical government growth during downturns. Nationwide, 7.7 percent of all private sector jobs were lost from peak to trough employment (January 2008 to February 2010). During this same period, government employment grew 0.4 percent. The government sector has not been immune to job losses. However, the start of these losses lagged the private sector by more than a year (*Chart 3*).

U.S. government employment grew at federal, state and local levels of government during the recession, though growth was driven by certain industries within government. At the federal level, hiring for public administration and healthcare positions contributed most to the growth. Many of the public administration positions were attributable to 2010 Census hiring, though the majority of Census jobs were added in recovery. The 2010 Census added 586,000 temporary positions at its peak in May 2010.<sup>1</sup>

Federal fiscal stimulus dollars from the American Recovery and Reinvestment Act funded positions at all levels of government as well as private sector jobs in infrastructure projects, including public roads and buildings.

**CHART 3**  
*U.S. Jobs in Recession and Recovery*  
Seasonally Adjusted, Year-over-Year Job Gains and Losses



Sources: Bureau of Labor Statistics, Current Employment Statistics



However, these hires did not begin until the tail end of the recession. The Congressional Budget Office estimated that the act created between 300,000 and 2 million public and private sector jobs from 2009 through 2012.<sup>2</sup>

State and local governments did not feel the full impact of the recession until fiscal year 2008-09, when most states began to report budget shortfalls. Job losses at these levels began in mid-2009. Offsetting some state government losses, staffing at state colleges and universities grew precipitously during the downturn with strong growth in enrollment at many higher education institutions. It wasn't until the 2011-12 academic year that enrollments leveled off and, in some cases, declined. Many higher education institutions sought tuition rate increases to offset reductions in state funding sources in order to support additional faculty and staff.

At the local government level, elementary and secondary education and general government public administration jobs drove growth at rates consistent with long-run trends and population growth. This growth gave way to job losses starting in July 2009 just before the start of the 2009-10 school year.

## MEASURING THE GOVERNMENT DRAG ON THE RECOVERY

Nationally, the government sector began to pose a drag on total job growth at the start of the recovery in mid-2009 (*Chart 4*). Local government job losses have dominated the drag, led by losses in primary and secondary education and general government public administration positions. The loss of temporary Census positions and the consolidation of the Postal Service resulted in the largest federal job losses, though most types of federal

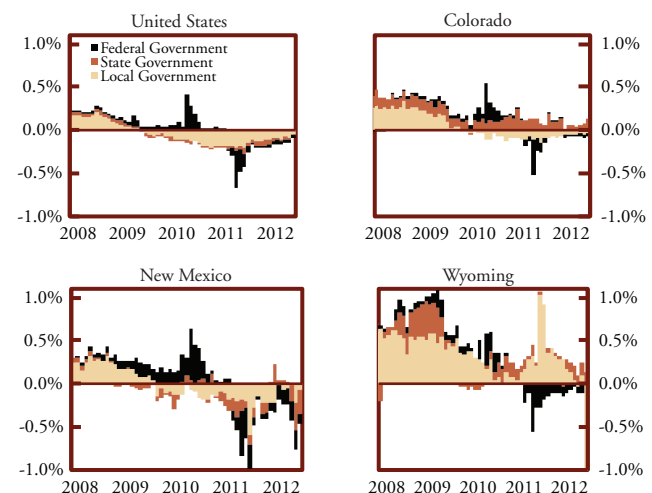
government jobs have been in decline over the last few years. At the state level, justice- and corrections-related positions and employment at state psychiatric centers and nursing homes have posed the largest drags on growth through the end of 2011, when detailed data is last available.

The start of the recovery began three years ago. Since then, the federal government has lost 21,000 jobs, state government 100,000 jobs, and local governments 506,000 jobs. Nationally, the government drag has eased in recent months. As of August 2012, total U.S. job growth was expanding at a year-over-year rate of 1.4 percent. During this time, government job losses were pulling down total job growth -0.1 percent, though the drag was as steep as -0.7 percent in May 2011 when the majority of temporary Census positions were eliminated.

While the mountain states have generally followed national trends in government employment, the

**CHART 4**  
*Government Contribution to Total Nonfarm Job Growth*

*Seasonally Adjusted*



Source: Bureau of Labor Statistics, Current Employment Statistics



government drag on total job growth has been unique to each state. In **Colorado**, state government employment growth more than offset federal and local government job losses through much of the recovery due to particularly strong growth in higher education employment. As of July, Colorado was adding both government and private sector jobs at a rate of 1.7 percent, with the government sector contributing 0.1 percent to the growth. Higher education enrollment has leveled off and even fallen for some state colleges and universities in recent months, likely prompting a government drag in months to come.

Of the mountain states, the government drag has been most severe in **New Mexico**. In July, total nonfarm employment decreased -0.3 percent relative to year-ago levels. Over this period, the government sector reduced total job growth by -0.5 percent, pulling it into negative territory. The federal, state and local government drags on total job growth in New Mexico have been more severe than for the nation.

Government jobs in **Wyoming** have contributed to total job growth in the recovery to date. Federal government job losses have been more than offset by growth in state and local government positions. Wyoming's state and local government tax structures

are highly dependent upon oil, gas and coal production, which remained strong in the years following the recession. With the recent drop in natural gas prices, natural gas drilling activity has slowed and with it, state and local government growth has also slowed in recent months. Preliminary data for July show that total employment fell -0.3 percent, pulled down by a -1 percent government drag. However, this drop may reflect inconsistencies in reporting primary and secondary education employment. Some of this drop is expected to be offset by gains in local government employment in coming months. In the months prior to the July release, government employment was averaging a 0.1 percent boost to total job growth.

## ENDNOTES

<sup>1</sup>Census Bureau <http://2010.census.gov/news/releases/jobs/temp-workers.html>

<sup>2</sup>Congressional Budget Office <http://www.cbo.gov/publication/43014>



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