

What Happens to Workers in Montana's Low-Wage Industries?

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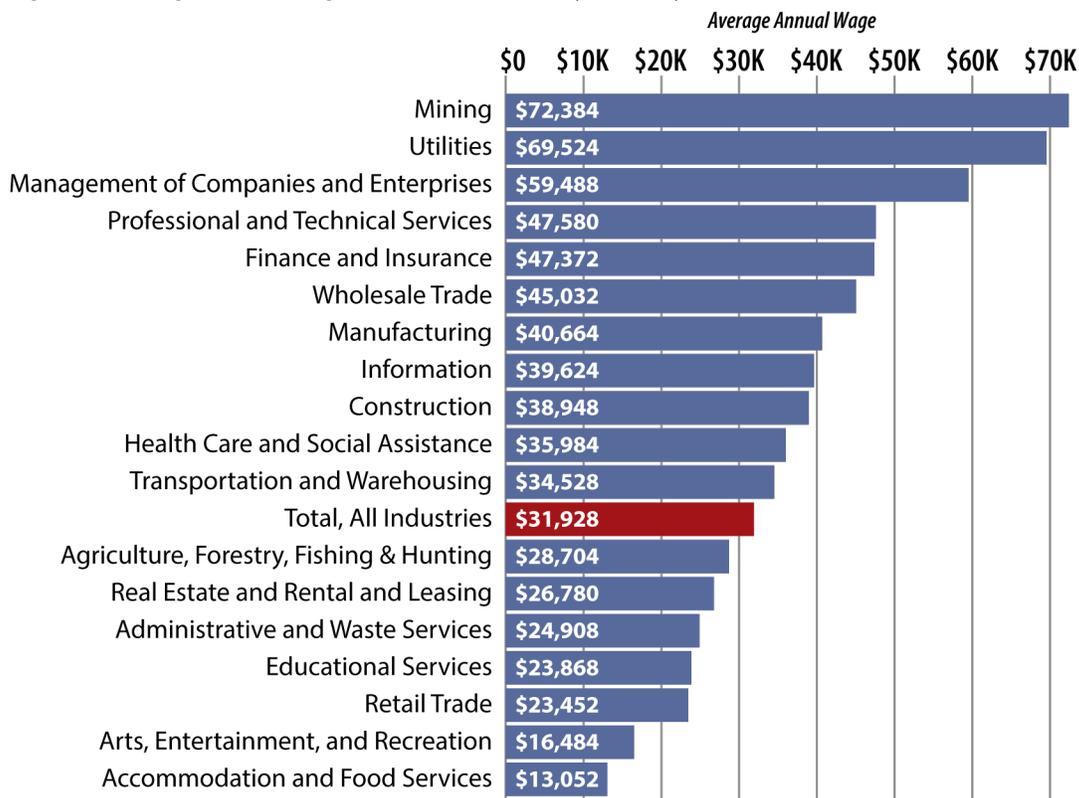


What happens to workers employed in some of Montana's lowest paying industries? Are people employed in the Retail or Food Service sectors stuck in dead-end jobs, earning low and stagnant incomes? Or, do workers in low-paying industries see their wages grow as they gain experience and progress in their jobs, or move into new and different industries and occupations? Unfortunately, it is very difficult to track changes at the individual level using any of the standard labor market data sources. Using Unemployment Insurance (UI) wage records for Montana, this article tracks each person that worked in

some of Montana's lowest paying industries in 2008 and examines their labor market outcomes, such as labor force participation, employment and wage levels, in 2012.

There is considerable variation in the average wages of Montana's industries. In 2008, the average annual wage for all private sector workers in Montana was \$31,928 (Figure 1). Workers in the goods-producing sectors tended to earn more than the statewide average, with the Construction, Manufacturing, and Mining sectors having higher average

Figure 1: Average Annual Wage Levels in Montana by Industry, 2008



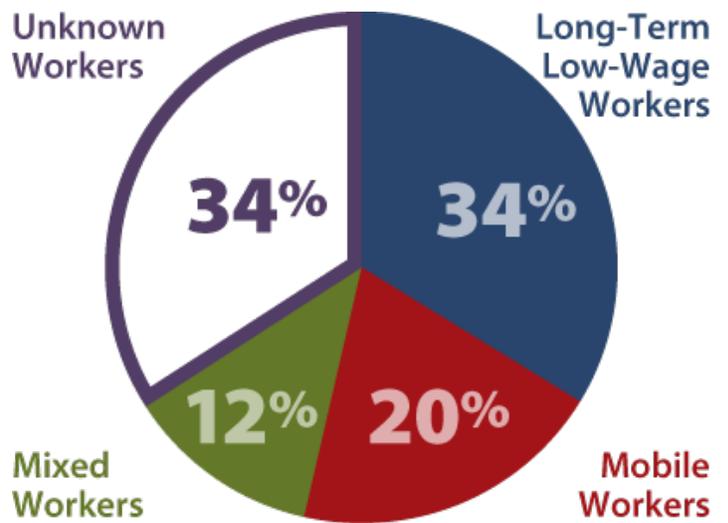
Source: Quarterly Census of Employment and Wages, Montana Department of Labor and Industry

wages than the statewide average. The Accommodation and Food Services sector, with an average wage of \$13,052, had the lowest annual wage in the state. For the purposes of this article, the three industries with the lowest average annual wages (Accommodation and Food Services; Retail Trade; and Arts, Entertainment, and Recreation) will be examined together as Montana’s low-wage industries.

According to Unemployment Insurance wage records for Montana, 533,909 individuals worked and earned UI-covered wages within Montana in 2008. Of these workers, nearly 36% (190,730) were employed at some point during the year in one of the three low-wage industries. Retail Trade had the largest concentration of workers in the low-wage sectors, employing 102,221 people at some point in 2008. Within the same time frame, Accommodation and Food Services employed 89,691 Montanans, while Arts, Entertainment, and Recreation employed 24,470.

Based on their employment patterns for 2008 and 2012, workers in Montana’s low-wage industries can be broken down into four types of workers. Long-term low-wage workers were employed in one of the low-wage industries in 2008 and were exclusively employed in the low-wage sectors in 2012. Based on UI wage records for 2012, long-term low-wage workers comprised nearly 34% of all the low-wage industry workers in 2008 (Figure 2). The second group is mobile workers, who are defined as individuals employed in the low-wage industries in 2008, but exclusively employed in other industries in 2012. Mobile workers comprised 20% of all 2008 low-wage industry workers. A third category of employees, mixed workers, are individuals who were employed in low-wage sectors in 2008 and 2012, as well as being employed in other sectors in 2012. Finally, unknown workers are individuals who were employed in the low-wage sectors in 2008, but had no UI wage records in 2012. At 34%, unknown workers comprised the largest share of Montana’s low-wage industry workers.

Figure 2: Labor Market Outcomes of Workers Employed in Low-Wage Industries in 2008

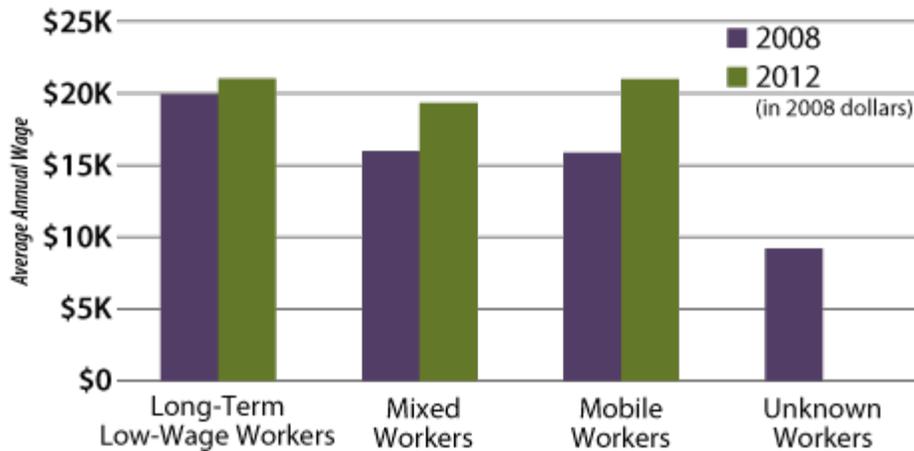


Source: Montana Department of Labor and Industry

About a third of workers employed in the low-wage industries remain employed within them for a considerable amount of time and may be developing a career within one of the low-wage industries. Workers who remain employed in the low-paying sectors do see relatively high wages, as well as inflation-adjusted wage increase over time. Of the four groups identified, long-term low-wage workers had the highest wages, earning on average \$19,900 in 2008 and \$21,034 in 2012 (Figure 3). From 2008 to 2012, long-term low-wage workers saw their inflation-adjusted wages increase by more than \$1,100, or nearly 6%. Long-term low-wage workers also saw their real wages increase faster than the low-wage industry average, which only increased 2.3% after adjusting for inflation.

The fact that long-term workers in the low-paying industries are experiencing real increases in their wages is not surprising. As individuals remain employed, they improve upon the skills they already possess and develop new skills in other areas, which results in higher wages. For example, an entry level Retail Salesperson earns about \$8.30 per hour in Montana. Given some time, an experienced Retail Salesperson can earn

Figure 3: Annual Average Wages by Worker Type of Low-Wage Industry Workers, 2008 and 2012



Source: Montana Department of Labor and Industry

around \$15 per hour, with the top 10% of Retail Salespersons earning more than \$19 per hour. In addition to becoming more productive in their current positions, there are opportunities for workers to move into occupations within the low-paying industries that pay relatively high wages. For example, a Retail Salesperson that moves into a Managers of Retail Sales Workers position could expect to earn, on average, nearly \$19 per hour. Based on Montana’s UI wage records, long-term workers in Montana’s low-wage industries do appear to be advancing and experiencing real wage increases as individuals gain work experience over time.

A large number of workers in low-wage industries do not appear to be strongly attached to Montana’s labor force. More than a third of all the people employed in Montana’s low-wage industries in 2008 were no longer earning any Montana UI covered wages in 2012 (Figure 2). The lack of Montana UI wage records could indicate that the individual decided to stop working completely and left the labor force. At the same time, however, the lack of UI wage records could also be an indication that the individual left the state, but is still working in some area other than Montana. While the exact

cause may not be known, the relatively low skill requirements for a large number of occupations within each of the low-wage industries is likely to attract a large number of workers who are only looking for temporary or part-time work for marginally-attached workers.

Those workers who did drop out of Montana’s UI wage records were earning, on average, less than half the wage level of permanent workers. Based on the four low-wage worker categories, unknown workers had the lowest average annual wages in 2008, earning only \$9,209. The low average wages for the unknown workers when compared to the other worker types is a possible indicator of a large number of part-time workers. Overall, the combination of low wages, part-time workers, and high labor force exit rates indicates that a large number of workers in the low-wage industries may only be in the work force temporarily and only working for a supplemental source of income. If this is the case, flexible work schedules and the availability of part-time work may be more important to a large number of low-wage industry workers than higher wages or advancement opportunities.

¹Occupational Employment Statistics, Montana Department of Labor and Industry, 2012

Finally, about 32% of workers employed in the low-wage sectors remain within the statewide labor force, but do not remain employed within the low-wage sectors. When the industry mobile workers do shift sectors, they tend to see large increases in their take home pay. In fact, mobile workers experienced the largest increase in their wage levels, both in absolute and percentage terms (Figure 3). By 2012, the average annual wage of mobile workers increased from \$15,880 in 2008 to an inflation-adjusted \$20,983, a 32% increase. Individuals in the mixed workers category also experienced a significant increase in wages, increasing from \$15,968 in 2008 to \$19,308 in 2012, an increase of \$3,340 in inflation-adjusted dollars.

Given the types of people that are likely to make up the mobile worker category, large increases in wages is not surprising. One group of people who are generally known to work in the low-wage sectors, and are likely to make up a large portion of mobile workers, are college and high school students. While in school, people generally have less time for work and fewer skills, which results in part-time and low-pay work. As high school and college students develop new skills and graduate with their respective credentials, they are likely to quit their part-time jobs in the low-wage sectors and move into higher paying, full-time occupations, often within different industry sectors. Unfortunately, without data on the number of hours worked, it is impossible to know how much of the wage increases for mixed and mobile workers is due to a higher rate of pay and how much is due to an increase in hours worked.

Looking at the employment histories of workers in the low-wage sectors, the data suggests that most of those employed in the Retail Trade; Accommodation and Food Services; and Arts, Entertainment, and Recreation sectors are not stuck in dead-end jobs. For long-term workers in the low-wage sectors, the relatively low wages may only be temporary as they develop their skills, become better at their jobs, and move into higher-paying occupations within the low-wage

sector. At the same time, the UI data indicates that there is a large number of workers in the low-wage industries who will move on to other sectors of the economy, where they will earn significantly higher wages and are likely to see continued wage increases in the future. Finally, the employment data also indicate that a third of the workers in the low-wage sectors may only be looking for a temporary source of employment and income. For the temporary workers, the relatively low wages may not be an issue, as flexible work schedules and other non-monetary benefits may be more important to their employment decisions. Overall, there appears to be a large and diverse group of people employed in Montana's low-wage sectors, which is something that should be considered when examining and discussing the low-wage industries of Montana's economy.

