FEDERAL RESERVE BANK
OF SAN FRANCISCO

ON THE SIDELINES OF THE HOT ECONOMY

MAY 2019

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The author acknowledges Community Advisory Council members Terry Benelli, La Shelle Dozier, Carol Gore, and Carl Talton for inspiring this report, and Laura Choi, Naomi Cytron, Laurel Gourd, Liz Laderman, Scott Turner, and Rob Valletta, and Brian Walker for their contributions to this report.

THE FEDERAL RESERVE BANK OF SAN FRANCISCO

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OVERVIEW

WHAT DOES THE "HOT ECONOMY" MEAN FOR LOW-INCOME COMMUNITIES?

While the economy is often characterized as "hot," marked by low unemployment, stable prices, and sustained economic growth, in low-income communities many residents are not enjoying the prosperity reflected in the aggregate measures of economic well-being.

It is often stated that monetary policy set by the Federal Reserve (the Fed) is a blunt instrument.[1] While the Fed monitors conditions in regional economies to weave together a picture of how the national economy is functioning as a whole, its tools of monetary policy are not designed to intervene on local conditions among particular communities that are struggling. Growing research, however, indicates the importance of local conditions, even down to the neighborhood level, in shaping the economic circumstances and even the long-term health for individuals and households.

MAIN MESSAGE: THE ECONOMY IS STRONG, BUT NOT FOR EVERYONE

Since the Great Recession, our economy has witnessed eight straight years of slow and steady job growth, with unemployment at historic lows and inflation remaining consistently low. This time period has been marked by solid GDP growth and unprecedented stock market performance.

However, this aggregate picture of economic prosperity masks the realities of many people who are struggling. Unemployment rates differ widely by socio-demographic factors, such as race, ethnicity and education. Many people who were unemployed during the Great Recession have remained out of the labor force.

Wages have stagnated, especially for the lowest wage earners, while costs such as housing, transportation, and child care have been increasing over time. These interrelated costs are forcing many to make difficult tradeoffs. For example, as people move further away from job opportunities to save on housing costs, they are faced with longer commute times. Longer commutes mean more time away from family and additional costs for extra child care.

This report synthesizes barriers to economic participation, raises issues that limit economic opportunity for many residents, and highlights the importance of local action to enable more people to come off the sidelines and benefit from this period of economic growth. Targeted efforts to address these barriers will ensure we are not leaving talent on the table and that we continue to grow and strengthen our economy.

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[1] "Why Do Not the Goals of the Federal Reserve Include Helping a Region of the Country That Is in a Recession?," Federal Reserve Bank of San Francisco, accessed March 22, 2019, https://www.frbsf.org/education/publications/doctor-econ/2003/april/regional-recession-monetary-policy/.

UNEMPLOYMENT AND LABOR FORCE PARTICIPATION LAG BEHIND FOR CERTAIN GROUPS

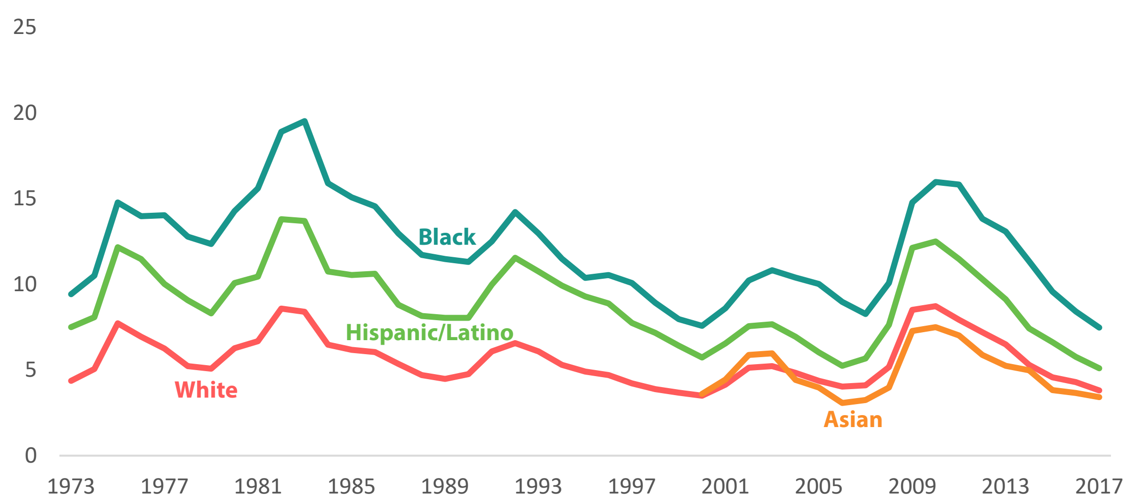
While aggregate numbers are essential for tracking progress of the economy as a whole, equally important is to examine the disaggregated data behind the top line numbers.

COMMUNITIES OF COLOR AND THOSE WITH LOWER EDUCATIONAL ATTAINMENT ARE MORE LIKELY TO BE UNEMPLOYED

Although unemployment has been declining since the Recession, gaps by race and ethnicity (Figure 1) and educational status (Figure 2) have been persistent over time. Among racial groups, Black people in particular have much higher unemployment rates -- over twice as high as White people. This disparity may reflect that many workers who are actively seeking employment are not in a position to avail themselves to the prosperity offered by the current economic boom.

FIGURE 1. RACIAL/ETHNIC DISPARITIES PERSIST AMID DECLINING UNEMPLOYMENT RATES[2]

Unemployment Rates by Race and Ethnicity, 1973-2017

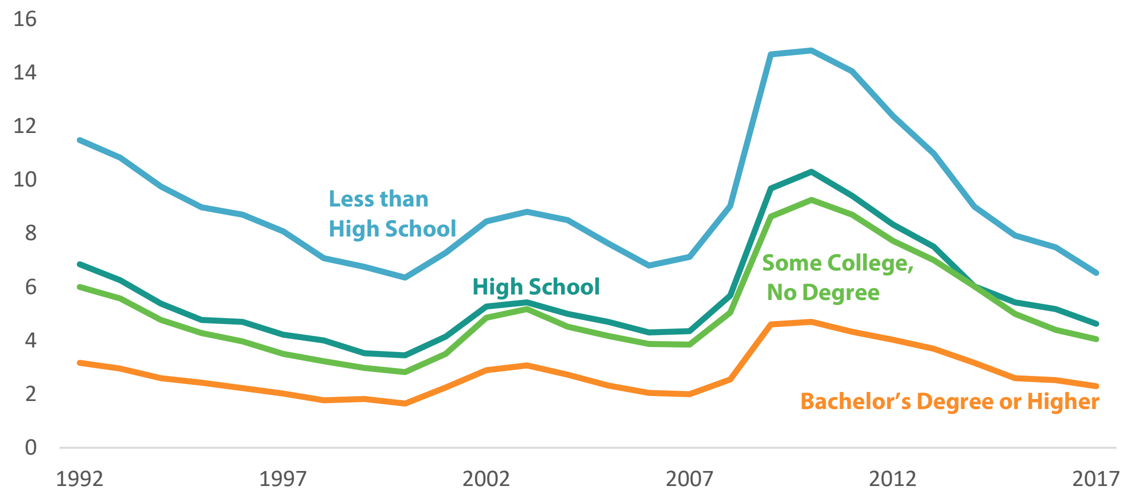


Source: U.S. Bureau of Labor Statistics. Annual averages; not seasonally adjusted. People whose ethnicity is identified as Hispanic or Latino may be of any race. Data for Asians are available only since 2000.

[2] Graph reproduced from "Labor Force Characteristics by Race and Ethnicity, 2017 : BLS Reports: U.S. Bureau of Labor Statistics," accessed October 15, 2018, https://www.bls.gov/opub/reports/race-and-ethnicity/2017/home.htm.

FIGURE 2. EDUCATIONAL DISPARITIES PERSIST AMID DECLINING UNEMPLOYMENT RATES

Unemployment Rates by Educational Attainment, 1992-2017



Source: U.S. Bureau of Labor Statistics. Annual averages; not seasonally adjusted.

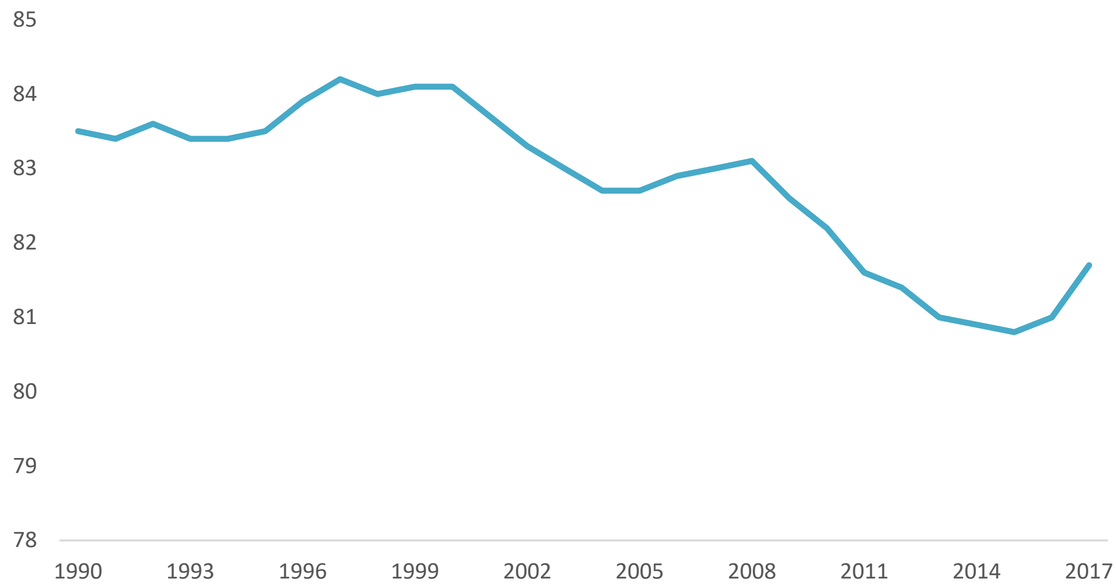
MANY PEOPLE ARE OUT OF THE LABOR FORCE

Despite the overall health of the economy and the increase in available jobs, many workers of prime working age are out of the workforce. Labor force participation, a measure of people who are either working or looking for work, has been declining for workers aged 25-54 over the past few decades (Figure 3). Despite some recent recovery, labor force participation for this group remains low at 81.8 percent as of September 2018, and by most accounts is not expected to grow much more in the near future.[3]

[3] Robert G. Valletta and Nathaniel Barlow, "The Prime-Age Workforce and Labor Market Polarization," FRBSF Economic Letter (Federal Reserve Bank of San Francisco, September 10, 2018), https://www.frbsf.org/economic-research/files/el2018-21.pdf.

FIGURE 3. LABOR FORCE PARTICIPATION FOR PRIME AGE WORKERS HAS BEEN DECLINING AND HAS REMAINED LOW FOLLOWING THE RECESSION

Labor Force Participation of People Ages 25-54, 1990-2017



Source: U.S. Bureau of Labor Statistics. Annual averages; not seasonally adjusted.

There are several reasons people are not participating in the labor force. A considerable portion of the decline in labor force participation for prime-aged workers since the year 2000 appears to be attributable to the loss of manual labor positions in manufacturing and other industries.[4] Poor health (such as illness or disability), opiod use, availability of leisure pursuits, and record of incarceration have also been acknowledged as contributors to low labor force participation.[5] In addition, people are discouraged from job-seeking because they do not believe they can find one with a suitable wage.

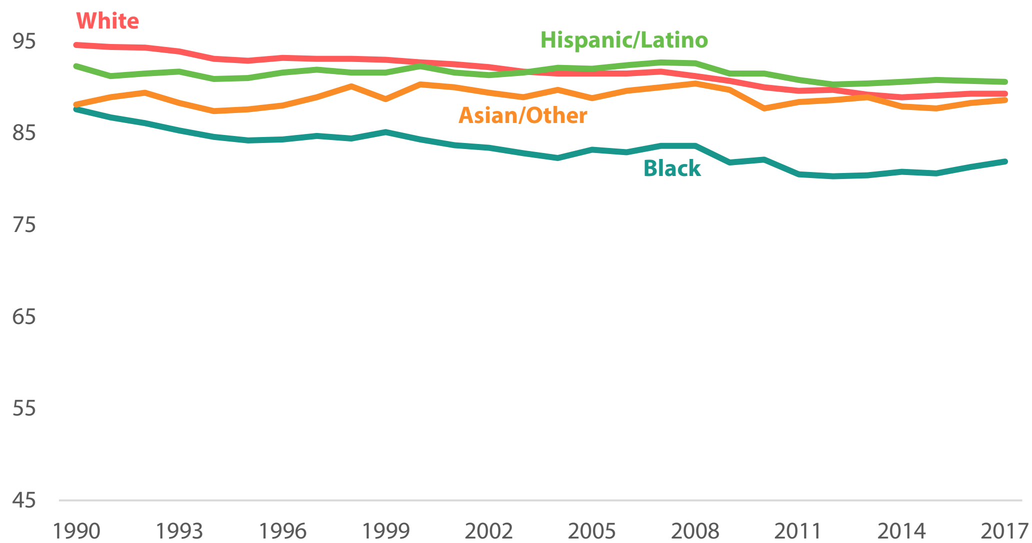
Incarceration rates among prime age workers have increased considerably in the last two decades, and may play a key role in labor force participation for men of color in particular. The most recent estimates of incarceration for Black men indicate rates twice that of Latino men and five times that of White men.[6] Labor force participation for Black men was about 8% lower than White and Latino participation in 2017 (Figure 4).[7]

Labor force participation has been lowest for those with the least educational attainment, and this difference may be exacerbated by the wage differential between groups (Figure 5).

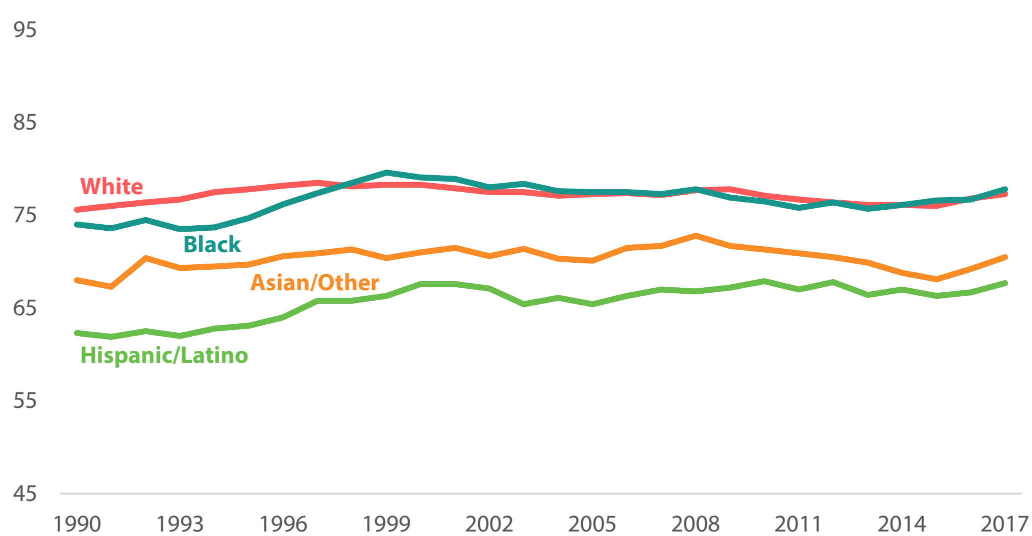
[4] Valletta and Barlow, "The Prime-Age Workforce and Labor Market Polarization."
[5] Valletta and Barlow.
[6] "Factors Affecting the Labor Force Participation of People Ages 25 to 54."
[7] "Factors Affecting the Labor Force Participation of People Ages 25 to 54."

FIGURE 4. LABOR FORCE PARTICIPATION VARIES BY SEX AND RACE/ETHNICITY[8]

Percent of men ages 25-54 in the labor force by race/ethnicity, 1990-2017



Percent of women ages 25-54 in the labor force by race/ethnicity, 1990-2017

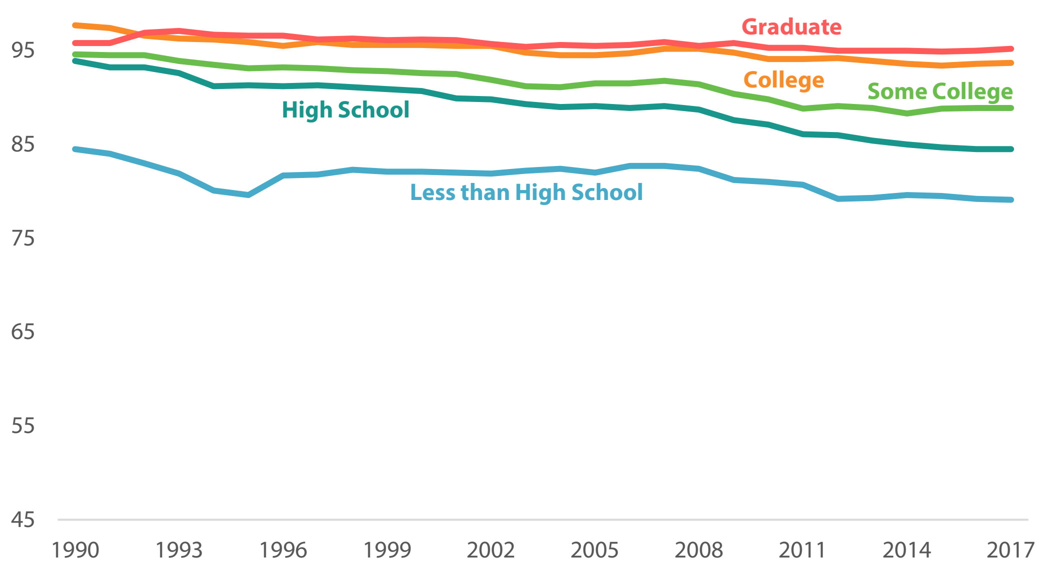


Source: U.S. Bureau of Labor Statistics. Annual averages; not seasonally adjusted. People whose ethnicity is identified as Hispanic or Latino may be of any race.

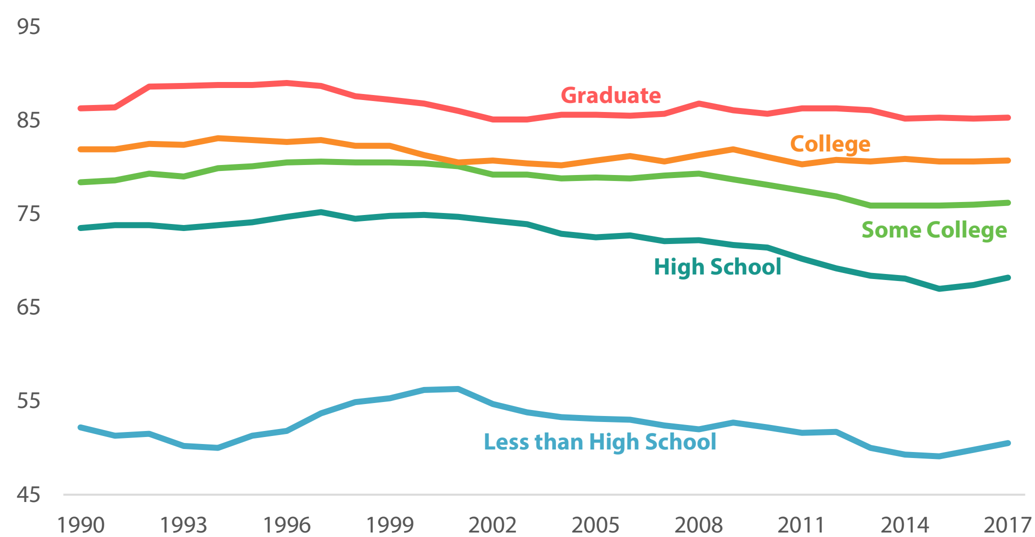
[8] Graph reproduced from "Factors Affecting the Labor Force Participation of People Ages 25 to 54" (Congressional Budget Office, February 7, 2018), https://www.cbo.gov/publication/53452.

FIGURE 5. THOSE WITH LOW LEVELS OF EDUCATION ARE MORE LIKELY TO BE OUT OF THE LABOR FORCE[9]

Percent of men ages 25-54 in the labor force by educational attainment, 1990-2017



Percent of women ages 25-54 in the labor force by educational attainment, 1990-2017



Source: U.S. Bureau of Labor Statistics. Annual averages; not seasonally adjusted.

[9] Graph reproduced from "Factors Affecting the Labor Force Participation of People Ages 25 to 54."

Many workers are also involuntarily stuck in part time jobs, as a product of the changing structure of the economy and the types of jobs available.[10] The involuntary part-time employment rate, a measure of individuals who are employed part time but want a full time job has remained higher than expected following the recovery from the Recession. Comparing May 2018 to April 2000, when the unemployment rate was the same, there are an additional 1.4 million extra involuntary part time workers in the economy – 40% higher than what is expected given this economic expansion.[11] Involuntary part time workers are more likely to earn low wages and be people of color.[12] These workers often lack benefits and control over their work schedules, and face more income volatility compared to full time workers.[13]

WAGE GROWTH HAS BEEN SLOWEST FOR LOW WAGE EARNERS

Over the past decade and a half, wage growth has been modest, and the most growth has occurred for top earners (Figure 6). Wage growth for the top 10% of earners is over three times that the bottom 10% of earners, and over twice that of the bottom 25%. Adjusted for inflation, this increase represents on average an additional \$220 per week in the pockets of earners in the 90th percentile compared to just \$14 a week for earners in the 10th percentile.

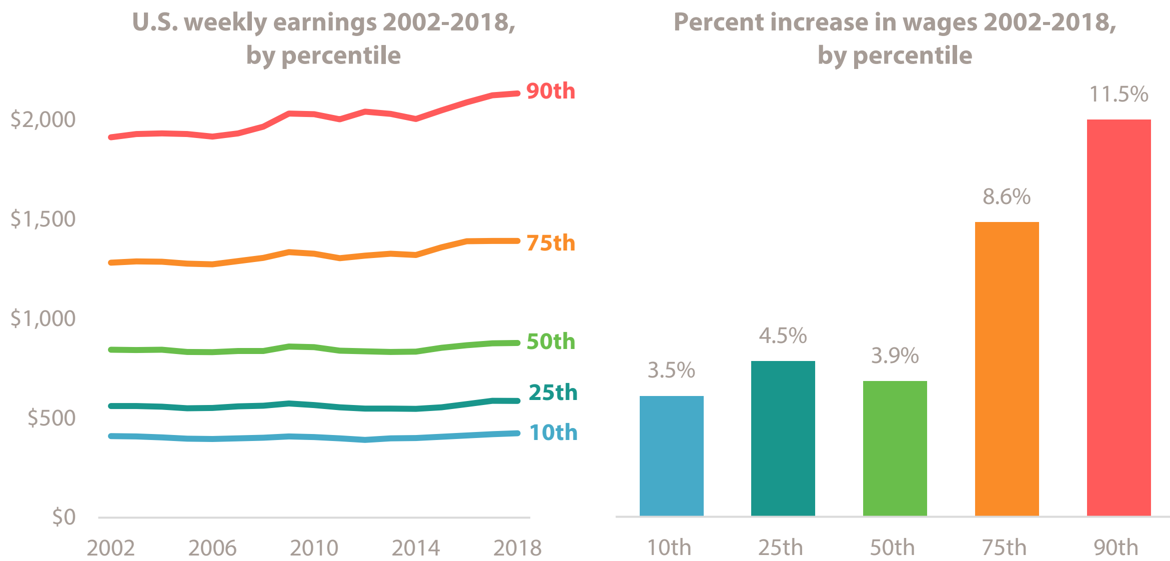
[10] Robert G. Valletta, Leila Bengali, and Catherine van der List, "Cyclical and Market Determinants of Involuntary Part-Time Employment" (Federal Reserve Bank of San Francisco, March 1, 2018), https://www.frbsf.org/economic-research/publications/working-papers/2017/may/.

[11] "Involuntary Part-Time Work: Yes, It's Here to Stay," Federal Reserve Bank of San Francisco, accessed October 12, 2018, https://www.frbsf.org/our-district/about/sf-fed-blog/involuntary-part-time-work-here-to-stay/.

[12] Gabriella Chiarenza, "Underemployment by the Numbers," Economics in the Community Context (Federal Reserve Bank of San Francisco, July 2016), https://www.frbsf.org/community-development/publications/special/economics-in-the-community-context-underemployment/.

[13] Chiarenza.

FIGURE 6. WAGE GROWTH HAS NOT KEPT PACE FOR LOWEST EARNERS



Source: U.S. Bureau of Labor Statistics. Usual weekly earnings for employed full time, wage and salary workers, not seasonally adjusted, adjusted for inflation to 2018 dollars.

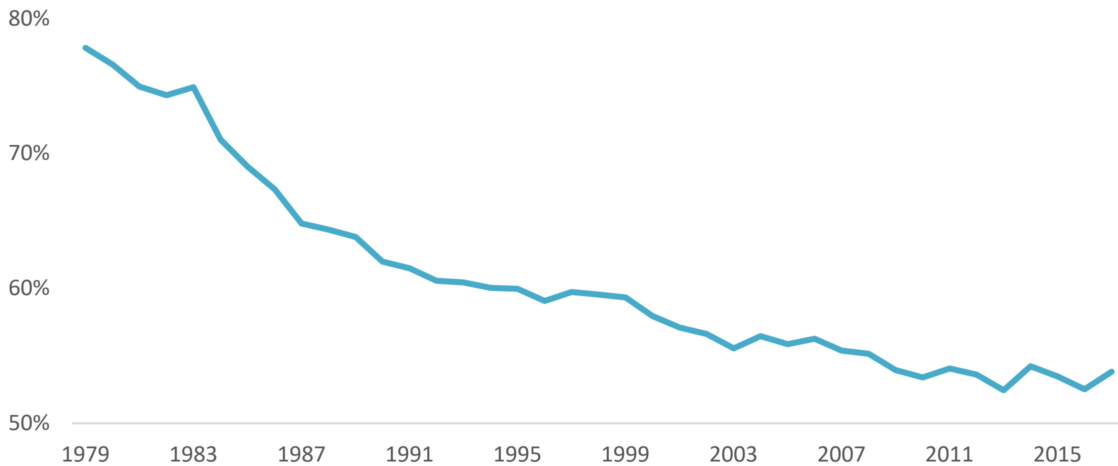
In addition, for the past four quarters, compared to the prior year, wage growth has been negative for key segments of the workforce, such as women, Black workers, those with high school or bachelor's degrees, and prime age workers as a whole.[14]

Limited educational attainment has played a growing role over the decades in the ability of workers to obtain well-paying jobs. The ratio of wages by educational attainment (Figure 7) illustrates that wages for male workers with high school graduates compared to those with college degrees has dropped significantly over time. A clear gradient exists such that unemployment rates increase and wages drop with declining educational attainment (Figure 8), indicating that people lacking college degrees find it harder to obtain jobs, and the jobs they do obtain tend to pay much lower wages.

[14] "The Economy Is Growing. These Workers' Paychecks Aren't.," accessed October 6, 2018, http://www.governing.com/topics/mgmt/gov-paycheck-wages-economy.html.

FIGURE 7. WAGES FOR MALE HIGH-SCHOOL GRADUATES HAVE DECLINED COMPARED TO THOSE WITH COLLEGE DEGREES[15]

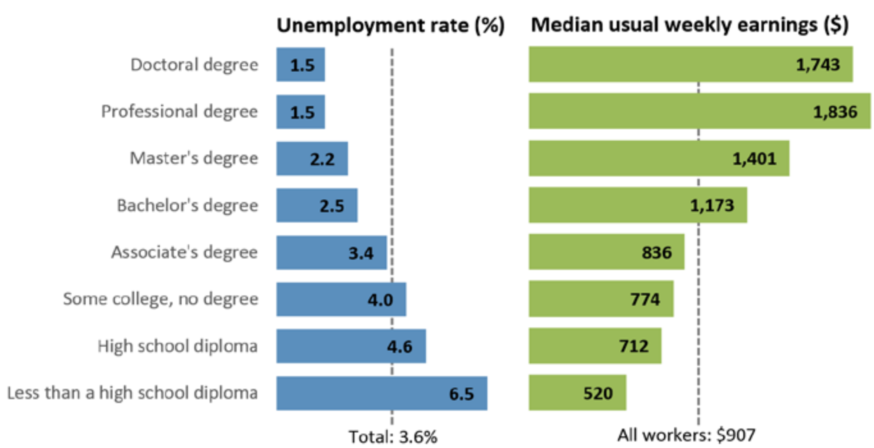
Ratio of wages for male high-school graduates 25 and older vs. male college graduates 25 and older



Source: U.S. Bureau of Labor Statistics. Current Population Survey.

FIGURE 8. PEOPLE WHO LACK HIGHER EDUCATION HAVE HIGHER UNEMPLOYMENT AND LOWER-WAGE JOBS[16]

Unemployment rates and earnings by educational attainment, 2017



Source: U.S. Bureau of Labor Statistics. Current Population Survey. Usual weekly earnings for full time wage and salary workers. Data are for persons 25 and over.

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[15] Graph reproduced from Isabel V. Sawhill, "What the Forgotten Americans Really Want–and How to Give It to Them," *Brookings* (blog), October 10, 2018, https://www.brookings.edu/longform/what-the-forgotten-americans-really-want-and-how-to-give-it-to-them/.

[16] Graph from "Unemployment Rates and Earnings by Educational Attainment," accessed October 29, 2018, https://www.bls.gov/emp/chart-unemployment-earnings-education.htm.

There are also differences in wages by race/ethnicity. Median full-time weekly earnings in 2017 were $890 for White, $655 for Hispanic, $682 for Black, and $1,043 for Asian workers.[17] For men, this earnings disparity held across all race and ethnicity groups regardless of occupational group: White and Asian men earned more for the same occupational group than Hispanic and Black workers ($1458 and $1662 vs. $1166 and $1099 respectively).[18] Wage gaps between White and Black workers have actually been growing over time, and are more pronounced among men with college degrees compared to those with high school degrees.[19] This pay gap remains even when accounting for differences in age, education, industry and occupation, state of residence, and part-time job status, suggesting that unmeasured factors such as discrimination, differences in school quality, or differences in career opportunities are playing a key role in these significant and widening gaps over time.[20]

[17] "Labor Force Characteristics by Race and Ethnicity, 2017."

[18] It is important to note that Asian Americans have been identified as the racial/ethnic group with the greatest income inequality and aggregated data masks wide disparities within this group. See: "Income Inequality in the U.S. Is Rising Most Rapidly Among Asians | Pew Research Center," July 12, 2018, http://www.pewsocialtrends.org/2018/07/12/income-inequality-in-the-u-s-is-rising-most-rapidly-among-asians/.

[19] Mary C. Daly, Bart Hobijn, and Joseph H. Pedtke, "Disappointing Facts about the Black-White Wage Gap," FRBSF Economic Letter (Federal Reserve Bank of San Francisco, September 5, 2017), https://www.frbsf.org/economic-research/files/el2017-26.pdf.

[20] Daly, Hobijn, and Pedtke.

RISING HOUSEHOLD EXPENSES ARE IMPACTING LOW-INCOME RESIDENTS

Housing, transit, childcare are key growing expenses for low-income households. These costs are interrelated and cause difficult tradeoffs. Rising costs of housing close to job centers is resulting in many low-income residents being displaced to outer regions. As a result, workers are facing longer commute times, more spent time away from family and additional child care costs, which have been rising already. Given the rise in these costs, families are choosing to leave the labor force or may be forced to compromise quality of childcare or housing for cost relief.

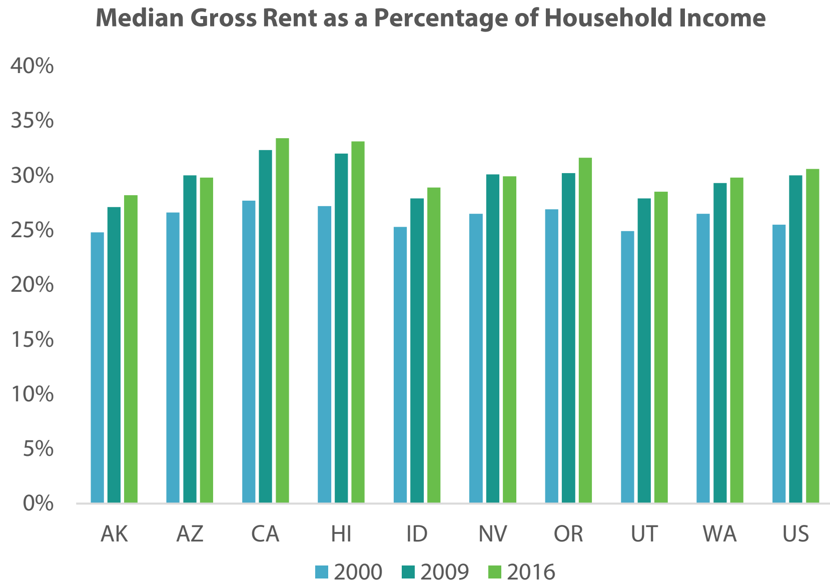
As shown the graphs below, these three costs combined could easily exceed annual household income for a typical low-income worker. In addition to these three key areas of rising costs, healthcare, food, and utility costs are also areas of increasing expenses. Even with a strong economy, many people must forgo these basics in order to balance their monthly costs.

HOUSING COSTS ARE ON THE RISE AND MANY MIDDLE AND LOW-INCOME RESIDENTS ARE COST-BURDENED

Since 2000, Americans on average have spent 5.1% more of their income on rent. Rent as a percentage of household income has increased for all nine states in the twelfth district since 2000, and has remained high in the period following the recession (Figure 9).

Many Americans are housing cost-burdened (Figure 10), meaning they spend over 30% of their monthly income on housing. Nearly half (47%) of all renters in the U.S. are now cost-burdened. Among those making less than $50,000 a year, 73% of renters are cost burdened, and among those making less than $35,000 a year, 83% of renters are cost-burdened.

FIGURE 9. HOUSING COSTS HAVE BEEN TAKING AN INCREASING SHARE OF RENTERS' INCOMES



Increase in Percentage of Household Income Spent on Rent Since 2000

Alaska	3.4%
Arizona	3.2%
California	5.7%
Hawaii	5.9%
Idaho	3.6%
Nevada	3.4%
Oregon	4.7%
Utah	3.6%
Washington	3.3%
United States	5.1%

Source: Census 2000, ACS 2009 (5-Year Estimates), ACS 2016 (5-Year Estimates), Social Explorer; U.S. Census Bureau

FIGURE 10. MANY HOUSEHOLDS ARE HOUSING COST-BURDENED

Percentage of households paying more than 30 percent on rent, by annual income

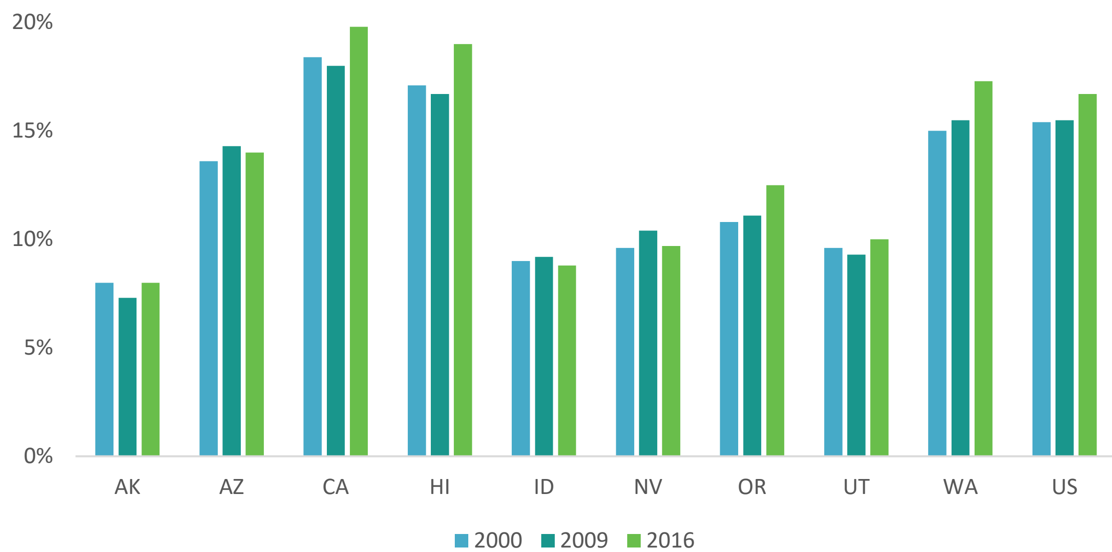
Source: ACS 2016 (5-Year Estimates), Social Explorer; U.S. Census Bureau

COMMUTE TIMES ARE INCREASING AND TRANSPORTATION COSTS ARE HIGH

More and more workers are commuting long distances since the Recession (Figure 5). Increases in rents relative to income may be pushing workers further away from job centers as they attempt to find lower-cost rents. The percentage of Americans who spend over 45 minutes traveling to work is now 17%. These state-level estimates may underestimate commute times in metropolitan areas, where commute times are likely to be much higher.

FIGURE 11. MORE WORKERS ARE COMMUTING LONG DISTANCES TO WORK

Percent of workers traveling over 45 minutes to work by state

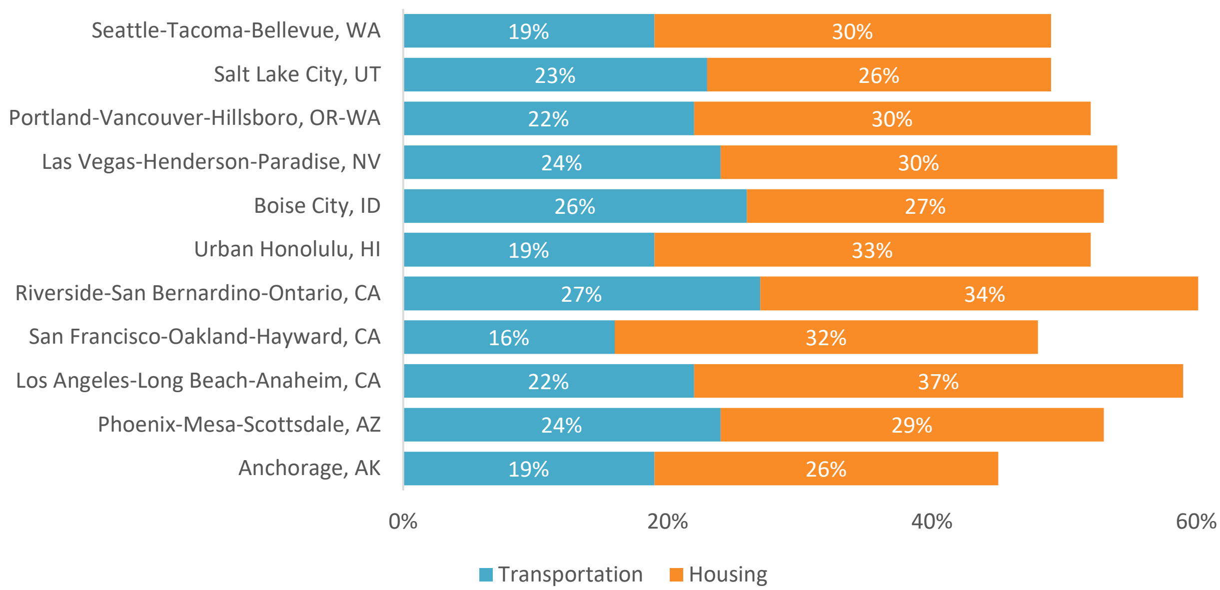


Source: Census 2000, ACS 2009 (5-Year Estimates), ACS 2016 (5-Year Estimates), Social Explorer; U.S. Census Bureau

Figure 12 shows combined housing and transportation costs for selected metropolitan areas in the twelfth district. This combined measure is a more complete indicator of interdependent housing and transportation costs, taking into account that consumers who choose lower cost housing may often incur higher transportation costs. This holds true for several metros in the twelfth district. For example, while housing in Boise city accounts for a seemingly modest 27% of the area's regional income, commute costs push combined housing and transportation expenses to 53%. In these select metros across the district, combined housing and transportation costs span from 45-61% of monthly income.

FIGURE 12. HOUSING AND TRANSPORTATION COSTS TOGETHER COMPRISE A LARGE PORTION OF HOUSEHOLD INCOME

Transportation and housing costs as a percentage of median regional income, selected metros



Source: The Center for Neighborhood Technology's Housing + Transportation Affordability Index, 2017

CHILD CARE COSTS ARE ALSO RISING

Child care is a fixed cost for many households, as well as a critical investment for our future workforce. Increasing research suggests the vital importance of early childhood education given that the brain architecture established in child's first years are the foundation for future learning and development.[21] Returns on investment in early childhood education are estimated to be as much as 18-20 percent.[22]

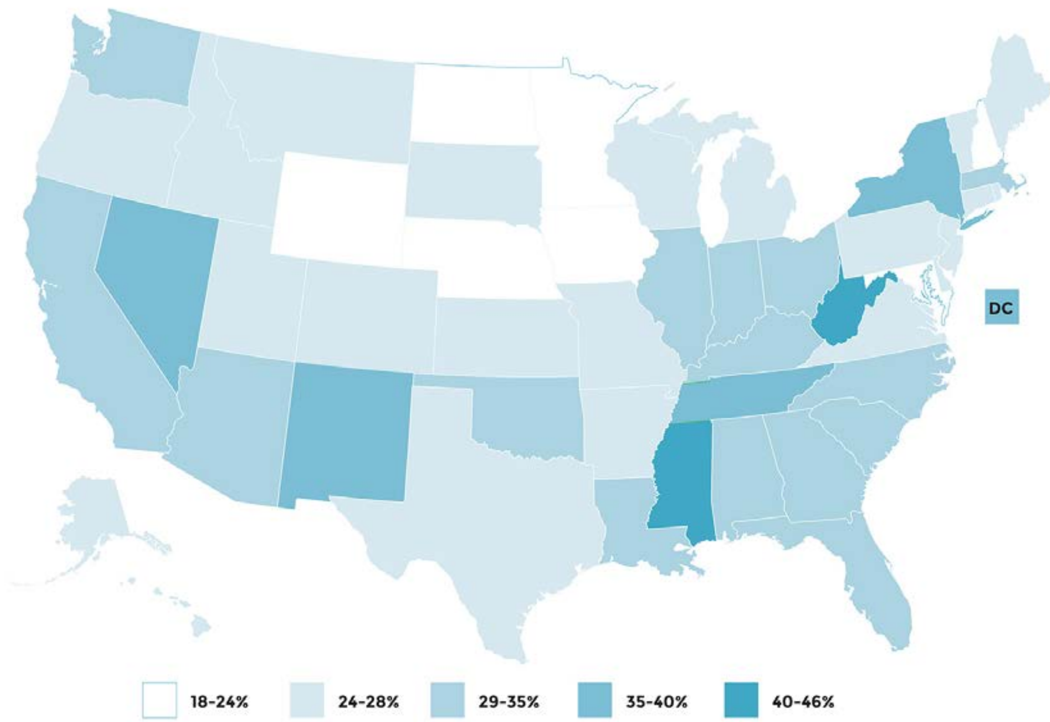
The cost of child care is increasingly out of reach for many families, and families face difficult tradeoffs to meet this expense. A study conducted by Care.com with more than 1,000 respondents across the income spectrum found that the high costs of child care also impact parents' employment decisions. Sixty-three percent of respondents said the cost of care impacted their career decisions, including switching jobs to increase pay (28%), switching from

[21] "InBrief: The Science of Early Childhood Development," Center on the Developing Child at Harvard University, accessed August 27, 2018, https://developingchild.harvard.edu/resources/inbrief-science-of-ecd/.

[22] Rob Grunewald and Arthur J Rolnick, "An Early Childhood Investment with a High Public Return," *The Regional Economist*, July 2010, 12–13.

a full time to part time schedule (27%) and becoming a stay-at-home parent (22%).[23] Even beyond the early childhood years, after-school and summer care still take a significant portion of household income throughout a child's school-age years.

FIGURE 13. CHILD CARE COSTS COMPRISE A LARGE PERCENTAGE OF MEDIAN HOUSEHOLD INCOME[24]



Source: New America and Care.com "The Care Report", September 2016.

For states in the twelfth district, child care costs range from 24-40% of median household income (Figure 13). For workers making minimum wage, child care costs range from 91-114% of income (Figure 14), indicating the impossible tradeoff that many parents face in considering employment opportunities.

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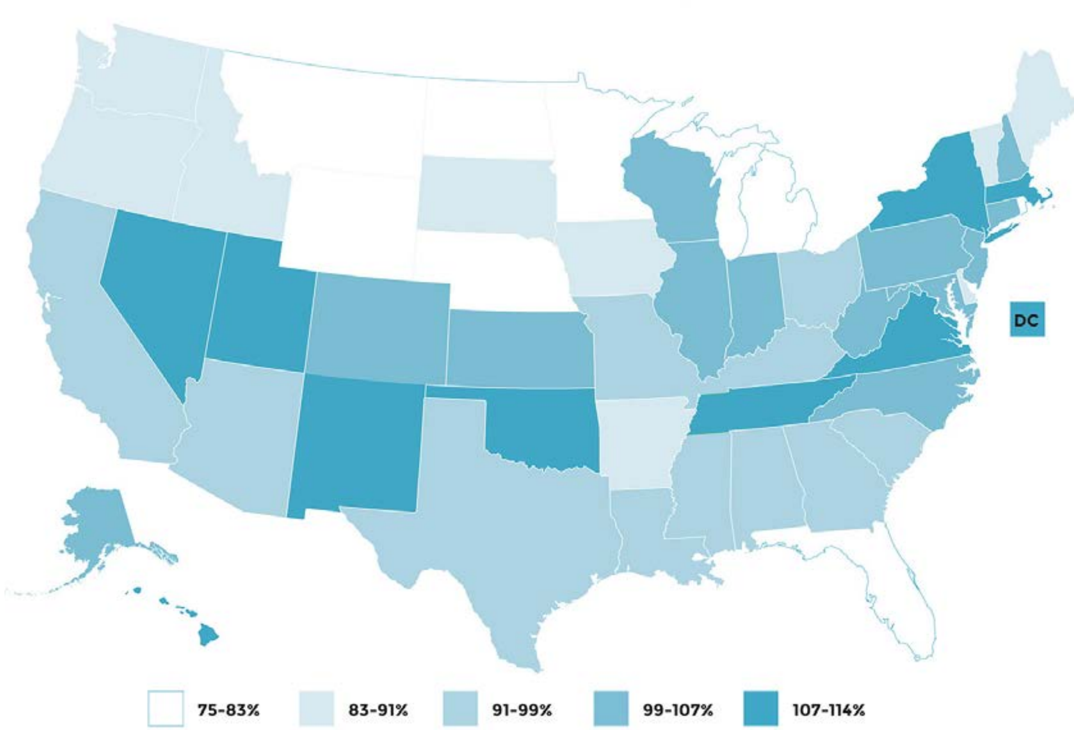
[23] Care com Inc, "This Is How Much Child Care Costs in 2018," Care.com, accessed October 6, 2018, https://www.care.com/c/stories/2423/how-much-does-child-care-cost/.

[24] Brigid Schulte and Alieza Durana, "The New America Care Report" (New America Better Life Lab, September 2016), https://www.newamerica.org/in-depth/care-report/.

FIGURE 14. AFFORDING CHILDCARE IS ALMOST IMPOSSIBLE WHEN MAKING MINIMUM WAGE[25]



Source: New America and Care.com "The Care Report", September 2016.

Trends of child care costs over time show costs trending upward for most states from 2007-2017 (Figure 15). Families can choose home-based care, but this option only offers little relief in terms of cost savings — only about $2000-7000 per year for these states.[26]

[25] Schulte and Durana.

[26] "Child Care Aware of America State Fact Sheets," 2008-2018.

FIGURE 15. CHILD CARE COSTS ARE TRENDING UPWARD OVER LAST DECADE

Annual cost of full time center-based care for an infant and a four-year-old.

Source: Child Care Aware® of America State Fact Sheets 2008, 2010, 2012, 2014, 2016, 2018, adjusted for inflation to 2018 dollars.

IMPLICATIONS AND OPPORTUNITIES FOR LOCAL ACTION

Altogether, this picture of unemployment disparities, persistent low labor force participation, stagnating wages and rising costs has implications for low-income residents' participation in the economy. The costs of working may outweigh the benefits for low-wage workers, keeping many on the sidelines. These circumstances pose challenges for the ability of employers to attract workers and therefore for overall growth of the economy.

Rising household expenses associated with hot economy, in particular across housing, transportation and childcare present challenges to many families. Efforts to preserve housing affordability in areas facing displacement pressures, to expand transportation options to ensure workers can get to work, and supporting affordable and high-quality childcare options are critical to ensure maximum participation in the economy.

An important part of keeping our economy strong is ensuring that all who wish to participate have the opportunity to do so.[27] Addressing the factors that keep people on the sidelines is essential for our shared economic prosperity.

[27] Mary C. Daly, "Raising the Speed Limit on Future Growth" (March 29, 2018), https://www.frbsf.org/our-district/press/leadership-speeches/2018/march/raising-the-speed-limit-on-future-growth/.

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