GREATER CINCINNATI LABOR MARKET STUDY

CHARACTERISTICS OF THE LABOR SUPPLY IN GREATER CINCINNATI

Prepared for

Cinergy Corp.

Greater Cincinnati Chamber of Commerce

Northern Kentucky Chamber of Commerce

Ohio Region 5 School-to-Work Alliance

April, 1999

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Greater Cincinnati Labor Market Study
Characteristics of the Labor Supply in Greater Cincinnati

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Table of Contents

	Overview	Page i
I.	Characteristics of Greater Cincinnati Current and Potential Labor Supply	Page 1
II.	Labor Force Requirements for Economic Growth	Page 14
III.	Population Migration in Greater Cincinnati	Page 28
IV.	Inventory of Greater Cincinnati Educational Resources	Page 39

Introduction

The Greater Cincinnati economy has produced new jobs at a rate that has exceeded both state and national averages.

During the past decade, the Greater Cincinnati economy has produced new jobs at a rate that has exceeded both state and national averages. At the same time, its growth in the labor force has been below average leading to labor markets that are tighter than state and national markets. While regional employment growth has contributed to the welfare of area employees and reflects a vibrant economy, it has led to concerns about labor shortages and barriers to continued expansion. In 1997, 14 percent of local employers we surveyed stated that their business plans to expand were limited because of tight labor markets.

Tight labor markets will cause wages and compensation to rise or they will cause employers to leave the area seeking places where the labor markets are more accommodating.

Tight labor markets reveal themselves in different forms. For some employers it means that there is a shortage of people with the right skills or education level – a market with an imperfect match between employers' labor requirements and the characteristics of the labor supply. For others it means there are too few applicants for open positions – a market where labor supply is not large enough to satisfy labor demand. In both cases, the tight labor markets will cause wages and compensation to rise as employers compete for qualified and available workers, or, it will cause employers to leave the area seeking places where the labor markets are more accommodating. Eventually, some people will respond to the higher wages by attaining the skills and education requirements that are in demand, or those not in the labor market will be enticed to make themselves available for work.

We believe the Greater Cincinnati labor market will respond to different incentives, and the creation of these incentives will benefit employers and the quality of life of people working in Greater Cincinnati.

We have studied the demand and supply of labor in Greater Cincinnati because we believe it is a market that will respond to different incentives, and the creation of these incentives will benefit employers and the quality of life of people working in Greater Cincinnati. If we improve information between employers and educators, the result will be a better match between labor requirements and the skills of the workforce, increasing and sustaining efficiency within the market. If we encourage potential in-migrants to move to Greater Cincinnati and offer effective incentives to work, we will increase the number of people available for work. These pro-active measures will improve the quality of the labor force, expand the size of the labor force, and introduce mechanisms to the market that are more likely to sustain an above average labor force quality.

This overview to our study highlights what we believe are the most important themes for the Greater Cincinnati labor market. They point to future trends in the labor market and how we can prepare ourselves to take advantage of our existing strengths and improve the areas in which we show relative weaknesses.

Training and education will become increasingly more important in the future because of the changing nature of jobs.

Our analysis of the demand for labor projects that employment growth will continue, but at different rates for different occupations and industries.

Our November 1997 analysis of the demand for labor projects that employment growth will continue, but at different rates for different occupations and industries.[1] The occupations that will grow the fastest include the professional, paraprofessional and technical (PPT) and service groups. Growth in the PPT occupations will contribute 28 percent of all new employment. Growth in the service occupations will account for 22 percent of all new employment. These two occupation groups are dramatically different from one another. The PPT occupation group provides secure, well paying jobs that provide good fringe benefits and require high levels of education. The service occupation group pays much less, has fewer fringe benefits, and higher turnover rates. While we expect growth to occur in both higher and lower paying jobs, the growth in higher paying jobs will outpace the growth in lower paying jobs. This will create a greater demand for better-trained employees.

Local employers report that job requirements will change in the future. Higher level thinking skills will be necessary for employees to succeed in the workplace.

In the past, managers designed production in a way that did not require high skills for most workers. Accordingly, the education and skill levels of American workers matched quite well with the needs of the workplace. However, the future will require more workers to use judgment and make decisions. Our 1997 survey of local employers confirmed that job requirements will change in the next few years – particularly in the skills that will be necessary to succeed in the workplace. While most jobs require basic skills (reading, writing, mathematics, and verbal) an increasing number of higher paying jobs require thinking skills such as creative thinking, decision making, problem solving and knowing how to learn.

Average job growth in the region will be greater for occupations requiring more education that for those requiring less.

The study projected that between 1996 and 2001 the number of jobs in Greater Cincinnati that have no education requirements will drop by 15 percent and the number of jobs that require at least a high school degree will fall by nearly eight percent. On the other hand, jobs in Greater Cincinnati that require certification, post secondary vocational education, or some college will increase by nine percent and the number of jobs that require a college or advanced degree will increase by almost 19 percent.

Effective communication between employers, educators, and trainers will be essential for the region to respond to the changing workplace.

One challenge Greater Cincinnati faces is to form effective lines of communication and meaningful partnerships between area employers and educators. This will be necessary if we are able to respond to and meet the needs of a new workplace where the rules and requirements have changed and will continue to change. The role of schools, universities, and training programs will become more critical in the future.

[1] Economics Research Group, Center for Economic Education, University of Cincinnati (1997). Characteristics of Employment Opportunities in Greater Cincinnati.

In the future, training existing employees will become more important to employers due to the aging of the labor force.

An older workforce will have some advantages, but will require new training efforts.

In this study we learned about the labor market implications of an aging labor force. This demographic trend will have some advantages in that the workforce will have more experience and therefore may be more productive. It also suggests that the total wage bill may increase since more experienced employees tend to be paid more. This changing age profile of the labor force also will create new training challenges. New labor market entrants will make up a lower percentage of the work force in the future -- 50 percent of the workforce in 2005 that graduated from college will have completed their education at least 18 years beforehand – before the year 1987. This suggests that training programs for existing employees may take on a new significance. Once again, we see the need for more cooperation and effective communication between trainers, educators, and employers.

Population growth at the current growth rates will not ease the tight labor market we are experiencing today.

The tightness of the labor market will not be relieved by growth in population if it continues at its current rate.

The tightness of the labor market will not be relieved by growth in population if it continues at its current rate. Greater Cincinnati's population growth rate has increased in the past several years, but it is still not equal to the projected growth in jobs. We estimate that on an annual basis, labor force growth will increase by 1.1 percent and employment growth will increase by 1.6 percent. Accordingly, we cannot rely on natural population growth to provide any relief to limitations that the current tight labor market imposes on future economic growth.

Migrants are more likely to be young, they respond to positive wage differentials, and they tend to move to locations where they have family or know someone.

In addition to natural growth rates in the population, the region has the capacity to grow through net in-migration. From 1986 to 1996, the net in-migration for this region was approximately 35,000, or an average of 3,500 per year. If we are to try to increase this rate, we must observe what we know about migration. Migrants are more likely to be young, they respond to positive wage differentials, and they tend to move to locations where they have family or know someone. When we analyzed migration patterns to and from the Cincinnati area, we found that the vast majority of the in-migrants and out-migrants came from areas within a two-hour drive from Greater Cincinnati. More than 60 percent of our *net* in-migration came from Greene and Montgomery counties in the Dayton area. Cuyahoga (Cleveland), Jefferson (Louisville) and Lucas (Toledo) counties were the next three top sources of in-migrants. The two destinations with the highest *net* out-migration were Pinellas (Tampa/St. Petersburg) and Maricopa (Phoenix) counties.

Efforts to stimulate in-migration should keep these variables in mind.

Furthermore, we also see that migration patterns reflect economic conditions. During 1984 and 1985, when this area was still recovering from difficult economic conditions, there was significant out-migration. When the economy was more vibrant, net in-migration increased. Attention should be directed toward areas near to Cincinnati where the awareness of Cincinnati's labor market is greater and where the residents of the communities will more likely have friends or family in Cincinnati. In addition, efforts should be directed toward areas where wage rates are considerably lower than in Cincinnati. But retention of workers, and stemming out-migration, has the same impact on net in-migration as attracting new workers into the region. Most of the out-migrants are leaving the area to seek better jobs. Accordingly, good information about local jobs, which are better than the jobs they currently hold, may be able to reduce out-migration.

Retaining and attracting occupation-specific workers will increase efficiency in the market.

Poor "matches" between the skills of the labor force and the demands of the workplace aggravate the tight labor market.

We project that the growth in the size of the labor force will not be sufficient to meet the needs of future employment growth. The problems associated with the resulting tight labor markets will be more severe if there is not a good "match" between the skills of the labor force and the demands of the work place. In comparing the flow of students from vocational educational schools, community colleges, and universities, we project a large mismatch between employer needs and the training the students receive.

Retention and attraction strategies should focus on skilled workers in manufacturing, computer science, nursing and therapy, skilled trades, medicine, business, education, and engineering.

Fields of study that have tight labor markets are business-related programs, services, education, nursing and therapy, skilled trades, manufacturing and metal working, computer science, and medicine. We estimate there will be 7.5 times more students trained in humanities, social, and behavioral sciences in 2002 than there will be job openings that specify this as a preferred area of study. On the other hand, there will be only 0.1 students trained in manufacturing and metal working for every job opening.

Our analysis reveals that efforts aimed at retaining graduates from specific programs of study and for encouraging meaningful co-op programs may be wise policy initiatives.

We have developed different scenarios regarding how many of the newly trained graduates of Greater Cincinnati's education and training organizations will remain in the local area and be available for work. For example, while 2.2 engineers will be trained for every engineering job opening in 2002, many of them will accept jobs outside of Greater Cincinnati and others will continue their education. Accordingly, there are only 0.6 newly trained available engineers for each job opening in the year 2002. This analysis reveals that efforts aimed at retaining graduates from specific programs of study and for encouraging meaningful co-op programs may be wise policy initiatives.

Labor force participation rates are critical. Efforts should be made to better understand incentives to work for those in the labor force and for those not in the labor force.

The percentage of the population that makes itself available for work is the most critical variable affecting the labor supplied to the workplace.

The percentage of the population that makes itself available for work is the most critical variable affecting the labor supplied to the workplace. Current participation rates in Cincinnati are higher than the national average, probably reflecting the population response to higher than average job growth in this area. A small increase of one percentage point (from 66 to 67 percent) would increase the labor force by 16,000. This is about equal to one year of population growth or to 50 percent of net in-migration over the past 10 years.

Beginning at age 55, the labor force participation rate drops to 65 percent from a rate of approximately 84 percent for people aged 40 to 44.

Those persons over 55 years of age constitute one group that should be analyzed further. Beginning at age 55, the labor force participation rate drops to 65 percent from a rate of approximately 84 percent for people aged 40 to 44. This is probably due to attractive retirement programs and "downsizing" programs of businesses. We expect that the labor force participation rate will increase in the years ahead when workers realize their self-invested retirement plans have not produced expected dividends and as concerns about the future viability of Social Security become more pronounced. This expectation notwithstanding, programs and incentives to keep these people in the labor force could have a big impact on the size of the labor force.

The participation rates for those with more education are much higher than for people with less education. Participation rates increase with income and are higher for males than for females.

We also know that labor force participation rates vary across different groups in the economy. The participation rates for those with more education are much higher than for people with less education. Participation rates increase with income and they are also higher for males than for females. These different groups respond to different incentives, but clearly education and training play a crucial role. As people are better educated and trained, the rewards to work increase in the form of higher incomes. Naturally they will be more likely to stay in the labor force if they are rewarded better to do so.

Those people who have opted out of the labor force becomes a critical group since it is here where we find real potential to increase our workforce.

Those people who have opted out of the labor force become a critical group since it is here where we find real potential to increase our workforce. We used Census Public Use Micro Sample data for the region in order to learn more about these people who are not in the labor force. We found that 66 percent of those not in the labor force are female. Flexible work plans, improved transportation, and quality child care may significantly increase the participation rates of women, especially those in the 20 to 34 age group, where the participation rate is approximately 13 percentage points below males.

Approximately 24 percent have some college or a college degree. Many of these people have skills that are in demand today.

We also found that many of the people who are not in the labor force have a good education. Approximately 24 percent have some college or a college degree. Many of these people have skills that are in demand today. Currently there are approximately 555,000 area residents over the ages of 16 who are not in the labor force. The returns to some systematic effort to entice some of those residents back to the workplace seem promising.