

# Why Is El Paso's Job Market So Sluggish?

Over the past eight quarters, the U.S. economy has nearly equaled its performance during the best years of the 1990s tech boom, with average gross domestic product (GDP) growth of 3.7 percent. However, between the last peak in economic activity in March 2001 and September 2004, the U.S. economy added barely a quarter million new wage and salary jobs, a number that would have been typical of one month's job growth in the late 1990s.

Every indication is that El Paso's economy is following the national lead. The El Paso index of coincident economic activity is up 2.6 percent over the past 12 months, and the city finds itself surrounded by rapid growth. For the last 12 months of data available, U.S. industrial production is up 5.1 percent, Mexican GDP is up 4.4 percent, Mexican industrial production has risen 5.5 percent, and there are 7.7 percent more maquiladora jobs. But with all this good news, local employment has expanded only 1.1 percent over the past year.

This article focuses on job growth in the United States and El Paso.<sup>1</sup> It is about the reasons for slow growth, the various ways we measure employment and the different stories these measures tell right now. The month after month of bad news on job growth has been primarily delivered by the establishment survey of wage and salary employees, while other measures indicate faster growth. Could these other measures mean that El Paso and the cities of the Desert Southwest are really doing better than we think?

## WHERE IS THE JOB GROWTH?

How could U.S. job growth come to a virtual standstill for the past two years in the midst of strong expansion in output? The answer seems to be a surge in productivity growth, best explained by a simple identity between output (O), employment (E) and productivity, or output per worker (O/E):

$$O = E \times (O/E)$$

In terms of growth rates, this becomes additive:

Growth rate of output = growth rate of employment + growth rate of productivity.

Over the past eight quarters, U.S. GDP growth has averaged 3.7 percent, and productivity has surged at a 4.1 percent annual rate. A little arithmetic indicates this leaves room for job growth of -0.4 percent.

To most economists, a surge in productivity is hardly a bad thing. In the short run it may be a job killer, but at the same time it lowers the cost of production, allowing for some combination of higher producer profits, higher employee wages and lower consumer prices. All of these argue for an eventual strengthening of demand for product and workers, following on the heels of stronger investment and consumption. In other words, while productivity kills jobs in the short run, it should generate many more jobs in the long run.

Explanations of why we have waited so long for the long-term gains to arrive vary: Round after round of uncertainty, from 9/11 to accounting scandals to Iraq, has postponed investment; structural change is only slowly moving workers out of declining industries; or the tight and overheated 1990s labor market may have overshot equilibrium and is just now adjusting back to normal. Whatever the reason, we have lived with the short-run, job-killing features of productivity for over two years, waiting for the long-term benefits to arrive.

El Paso should not be immune to these gains in productivity. Its economy remains closely tied to manufacturing, a sector that has led the U.S. economy in productivity gains over the past 25 years, and the competitive pressures of the global economy dictate that you adopt the best technology or close your doors. As indicated above, just as in the rest of the United States, there is every indication that El Paso is experiencing rapid production growth accompanied by a sluggish job market.

## ESTABLISHMENT VERSUS HOUSEHOLD EMPLOYMENT MEASURES

Controversy has recently surrounded two alternative measures of employment level (and, hence, job growth) produced each month by the Bureau of Labor Statistics (BLS).<sup>2</sup> The two surveys are produced for different reasons and measure different concepts, but comparisons between the two are inevitable. Comparisons are all the more likely to be drawn in a political season when one is indicating significant job growth and the other is not. Table 1 shows job growth between the March 2001 economic peak and September of this year. The more widely watched and cited establishment survey indicates little growth, while the household survey points to significantly more jobs—a difference of 1.7 million in the United

**Table 1****Job Growth in El Paso and Other Metropolitan Areas in the Desert Southwest According to Two Measures of Employment, March 2001–September 2004**

	<b>Household</b>	<b>Establishment</b>
El Paso	16,420	2,200
Albuquerque	6,709	10,200
Las Cruces	7,018	5,900
Lubbock	4,481	-200
Midland–Odessa	10,082	3,800
San Angelo	2,944	700
New Mexico	46,272	43,500
Texas	529,226	-64,000
Texas Triangle Cities	184,751	-109,800
United States	1,986,000	249,000

NOTES: Based on 1999 MSA definitions. Texas Triangle metros are Austin, Dallas, Fort Worth, Houston and San Antonio.

SOURCES: Bureau of Labor Statistics; author's calculations.

States, almost a half million in Texas and more than 14,000 in El Paso. Albuquerque is the only exception to faster growth in the household survey, but overall there is no question that the two series seem to have a different story to tell, especially in Texas.

If the comparisons in Table 1 point to higher growth in the household survey, surely there should be some story about a dark corner of the job market captured by the household measure but neglected by the establishment survey—new business formation, multiple-job holders or proprietorships, for example. Unfortunately, the more you try to pin down the differences between these series, the less sure you can be of how to interpret them.

The Current Employment Statistics survey, or establishment survey, is based on administrative records kept for the national unemployment insurance program. It provides a monthly estimate of the number of private sector and government employees covered by unemployment insurance, based on a monthly sample of over 400,000 work sites and about one-third of all nonfarm workers. Annually, accurate totals of the number of nonfarm wage and salary workers can be obtained from administrative records, ensuring that recent sample values can be corrected to actual values and continuing sample values are linked to a solid anchor in the recent past.

The Current Population Survey, or household survey, is based on a monthly sample of 60,000 households interviewed in person or by telephone. The universe measured here is much broader than wage and salary jobs; it includes all civilian noninstitutional population age 16 and over. Unlike the establishment survey, it counts the self-employed (proprietors and partners), agricultural workers, unpaid family members and

workers absent from the job without pay. There is no direct way to benchmark the survey to administrative totals, but annual re-estimates are produced along with new population estimates.

Perhaps one place to look for a discrepancy is the broader coverage of the household sector. More than a million agricultural workers and 9 million self-employed are not in the establishment survey. Or perhaps methodological differences hold the answer. The household survey counts workers based only on their primary em-

ployment, while the establishment survey counts the number of jobs, allowing multiple-job holding. Unfortunately, a careful accounting of these differences doesn't seem to take us far.

This is not the first time these two series have diverged for a long period. Between 1994 and 2000, the two series moved apart by more than 5.3 million in terms of indicated job growth, but in opposite directions from today, with the establishment survey indicating faster growth. Sophisticated efforts to resolve this 1990s difference are not encouraging. After all the definitional and coverage differences discussed above were considered (along with a number of others), only 21.5 percent of the difference in estimated growth could be accounted for.<sup>3</sup>

Referring back to Table 1, the current controversy over job growth may be a proverbial rabbit trail. As much as the alternative household employment data seem to better correspond to the strong growth around us, there are no firm methodological grounds to explain it. The last two times these surveys diverged widely (although in opposite directions), the data currently in hand would allow us to explain only 21 percent of the gap in growth. There is no reason to think it is different now, and we are simply left with an unsatisfying statistical mystery.

## **PROPRIETORS AND PARTNERSHIPS**

The side-by-side comparison of the household and employment survey yielded one clue that something interesting might be happening outside the scope of the nonfarm wage and salary survey since March 2001—the addition of 434,000 proprietors in the household survey by September of this year. The Census Bureau defines a proprietor as a person who works for profit or fees in his

or her own unincorporated business, profession or trade, or who operates a farm. To learn about proprietors at the local level, the best place to look is the Regional Economic Information System (REIS), produced by the Bureau of Economic Analysis (BEA). It is not comparable to the two employment surveys examined already, in that it is designed to provide data on employment and income in great geographic detail, is only produced annually (not monthly), and the latest year's data are only made available with a lag of about 18 months.

The REIS employment data appear in two series: a wage and salary series and another series on the number of proprietors, divided into both farm and nonfarm proprietors. Construction of the wage and salary data in REIS begins with the BLS establishment data, but BEA then adds a number of wage and salary jobs not covered by the unemployment insurance program, such as students and their spouses employed by colleges and universities, nonprofit organizations that choose not to participate, elected officials, members of the state and local judiciary, and so on.

The result is a BEA series that shifts up in level—in 2002, BEA added about 5.4 percent more wage and salary workers to the U.S. establishment data, 5.5 percent more in Texas and 8.4 percent more in El Paso—but does not otherwise alter its statistical characteristics.

The proprietor data in REIS are unique, however. They are not based on a sample but are taken from income tax filings with the Internal Revenue Service.<sup>4</sup> To be consistent with the wage and salary data, the BEA counts jobs (not workers) and allows multiple-job holding. Recall that the household survey counts only workers and the BLS counts only proprietors whose *primary*

job is running their own business. The difference in the count is striking once part-time entrepreneurship is allowed: In the United States in 2002, there were 8.9 million proprietors and partners in the household survey and 29.6 million in the BEA count. The BEA counted 2.4 million proprietors in Texas in 2002 and 49,000 in El Paso. Obviously, part-time ownership of a business is common; examples are barber and beauty shops, childcare providers, real estate agents, carpenters, plumbers and tax preparers.

Did the number of proprietors matter over the course of the business cycle's latest turns? The long lag in the delivery of the data lets us see only the first year of recovery. Table 2 shows the percent change in 2001–02 in the total number of jobs, wage and salary jobs, and number of proprietors. Note that in the United States, Texas and all the cities examined, proprietors account for at least 15 percent of all jobs. Changes in the number of wage and salary jobs are quite close to the story told by the BLS establishment data in every area, and (with the exception of Las Cruces) percent changes in the number of proprietors are quite large, in contrast to the growth of wage and salary numbers. Adding proprietors into the total job count improves the job growth estimates in 2001–02 by a half to a full percentage point in most areas.

Are these good jobs? Or are they just a Band-Aid following recession? Certainly, some people may turn to their own business in difficult economic times if they feel threatened in their primary employment or if a slowdown brings less overtime. If laid off, some professionals may simply print business cards and become instant consultants. Others may find themselves pushed by circumstances into starting a business they have long

**Table 2**  
**Growth of Total Employment, Wage and Salary Jobs, and Proprietorships, First Year of Recovery, 2001–02**

	Proprietors (Percent share)	Percent job growth, 2001–02		
		Total	Wage and salary	Proprietors
El Paso	15	1.7	1.1	5.2
Albuquerque	15.6	.8	-.01	5.5
Las Cruces	16.2	3.6	3.5	4.3
Lubbock	18.9	.1	-.8	4.3
Midland–Odessa	23.2	-.1	-1.1	3.4
San Angelo	21.1	.2	.5	5.2
New Mexico	18.3	1.8	1.2	4.6
Texas Triangle	17.4	-.2	-1.4	5.4
Texas	19.4	.2	-.8	4.7
United States	17.7	.1	-.9	5.5

NOTES: Based on 1999 MSA definitions. Texas Triangle metros are Austin, Dallas, Fort Worth, Houston and San Antonio.

SOURCES: Bureau of Economic Analysis; author's calculations.

considered. And others may find new opportunity in the general economic housecleaning that a recession brings. One study found that the oil bust in Texas and Louisiana cities led to a quick surge in the number of proprietors, but that it took several years for a large increase in proprietors' income to follow.<sup>5</sup> Recessions are also sometimes compared to forest fires, leaving the seeds of economic regeneration on the forest floor after they pass. These proprietorships may well be the seeds of future growth.

## CONCLUSION

Despite the controversy at the national level over which employment series to follow, we could find little evidence that the more optimistic, less watched household series really offers trustworthy news about additional job growth in El Paso and surrounding cities. The exception is perhaps in new proprietorships, where the self-employed added from 0.5 percent to 1 percent to total employment in the first year of economic recovery.

Even if this proprietor job growth carried over into 2003 and 2004, adding a percentage point to growth in El Paso or Texas or the United States, the numbers remain disappointing. The primary factors still shaping job growth at present are the short-run, job-depressing effects of productivity, along with some structural readjustments to the 1990s tech boom and bust. We are still waiting for the long-term, job-growing benefits of higher productivity growth that seem sure to follow.

—Robert W. Gilmer

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## NOTES

- <sup>1</sup> The December 2004 issue of *Houston Business*, published by the Federal Reserve Bank of Dallas, contains a similar but more detailed analysis of the same problem for Houston and other Texas Triangle cities.
- <sup>2</sup> For a summary of the controversy, including a number of issues not touched on in this article, see "Employment from the BLS household and payroll surveys: summary of recent trends," on the BLS web site at [www.bls.gov/cps/ces\\_cps\\_trends.pdf](http://www.bls.gov/cps/ces_cps_trends.pdf).
- <sup>3</sup> "Examining the Discrepancy in Employment Growth Between the CPS and CES," by Mary Bowler, Katie Kirkland, Jurgen Kropf, Thomas Nardone and Signe Wetrogan, a paper prepared for the Federal Economics Statistics Advisory Committee, Washington, D.C., October 17, 2003.
- <sup>4</sup> The total number of proprietors is taken from Schedule C of IRS Form 1040 on gains and losses from business, and a partnership count from Form 1065, U.S. Partners Return of Income. Limited partnerships for oil and gas and real estate are handled separately.
- <sup>5</sup> See "Finding New Ways to Grow: Recovery in the Oil Patch," by R. W. Gilmer, *Houston Business*, July 1996.

## U.S.—Mexico Trade: Are We Still Connected?

(continued from page 4)

## NOTES

- <sup>1</sup> The seminal work on this subject is *Intra-Industry Trade: The Theory and Measurement of International Trade in Differentiated Products*, by H. G. Grubel and P. J. Lloyd, New York: John Wiley, 1975.
- <sup>2</sup> For an introduction to the subject, see "The Nature and Significance of Intra-Industry Trade," by Roy J. Ruffin, Federal Reserve Bank of Dallas *Economic and Financial Review*, Fourth Quarter 1999, pp. 2–9.
- <sup>3</sup> "The Endogeneity of the Optimum Currency Area Criteria," by Jeffrey Frankel and Andrew Rose, *Economic Journal*, vol. 108, July 1998, pp. 1009–25.
- <sup>4</sup> "Intra-Industry Trade: Current Perspectives and Unresolved Issues," by David Greenaway and Chris Milner, *Weltwirtschaftliches Archiv*, vol. 123, no. 1, 1987, pp. 39–57.
- <sup>5</sup> "Intra-Industry Trade Between the United States and Mexico: 1993–1998," by Don P. Clark, Thomas M. Fullerton Jr. and Duane Burdorf, *Estudios Económicos*, El Colegio de México, vol. 16, no. 2, 2001, pp. 167–83.
- <sup>6</sup> See "Bilateral Trade and Business Cycle Synchronization: Evidence from Mexico and United States Manufacturing Industries," by Daniel Chiquiar and Manuel Ramos-Francia, Working Paper no. 2004-05, Dirección General de Investigación Económica, Banco de México, October 2004. Also see "La Relación de Largo Plazo del PIB Mexicano y de sus Componentes con la Actividad Económica en los Estados Unidos y con el Tipo de Cambio Real," by Daniel G. Garcés Díaz, Documento de Investigación no. 2003-4, Dirección General de Investigación Económica, Banco de México, marzo de 2003.
- <sup>7</sup> See "El empleo en la frontera de Texas y el crecimiento de las maquiladoras," by Jesus Cañas, Roberto Coronado and Robert W. Gilmer, *Acontecimientos Recientes sobre Desarrollo Económico Fronterizo*, Colegio de la Frontera Norte, forthcoming.
- <sup>8</sup> See "Maquila Sunrise or Sunset? Evolutions of Regional Production Advantages," by Stephan Weiler and Becky Zerlentes, *Social Science Journal*, vol. 40, no. 2, 2003, pp. 283–97.



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