

Global Macro Views

Red versus Blue States in the Jobs Recovery



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Robin Brooks, Managing Director & Chief Economist, rbrooks@iif.com, +1 202 857 3609

Peter Nagle, Economist, Global Macroeconomics, pnagle@iif.com, +1 202 857 3313

Jonathan Fortun, Senior Research Analyst, Global Macroeconomics, jfortun@iif.com, +1 202 857 3329

- *Red* states are falling behind *blue* states in the labor market recovery, ...
- a phenomenon we documented in a *Global Macro Views* earlier this week.
- We follow up here on several questions we have received from our readers, ...
- showing that the *red* state “lag” is broad-based and not hurricane related.

Earlier this week we published a *Global Macro Views* showing that *red* states are falling behind *blue* states in the labor market recovery. Labor force participation is dropping in *red* states, so that – even with strong jobs growth – employment-to-population ratios are declining in many places. The reason we are focused on this is because the booming labor market, in principle, has the potential to heal the rift across the US. In practice, state-level data don’t point in that direction, unfortunately. Our report raised many questions from our readers, which we address here. First, many asked if the divergence between *red* and *blue* states is driven by a few outliers. We show that declining *red* state participation is broad-based, i.e. more than a story about a few swing states. Second, many wondered if the results might be distorted by the September hurricanes, since this is the last month for which state-level data are available. The decline in *red* state participation began in April, i.e. predates the hurricanes. Third, many asked what the underlying driver for *red* state underperformance might be. We have ruled out demographics, showing that the median age in *red* and *blue* states is almost the same. Differentials in economic growth also do not look to be the cause. Instead, we suspect it is the sectoral composition of employment growth, which disadvantages red states, something we will dig into in coming pieces.

Chart 1: Participation is down in many red states, ...
Change in participation, in %

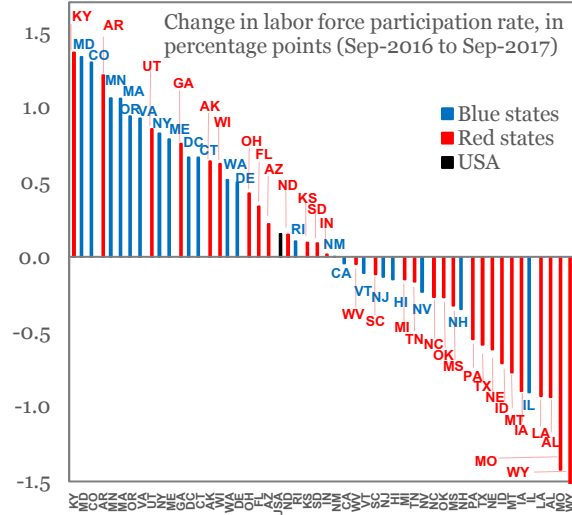
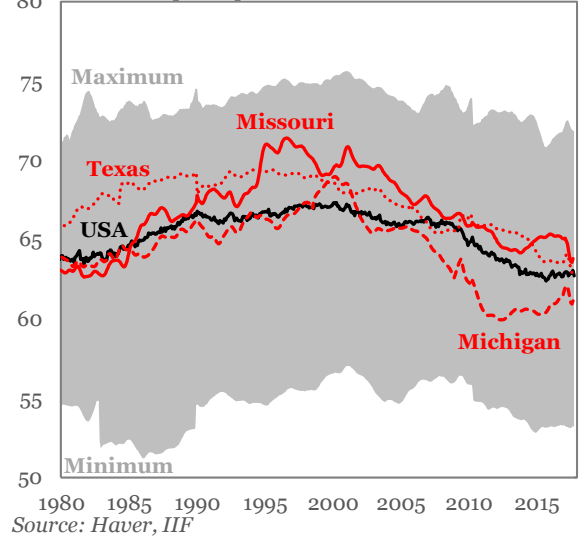


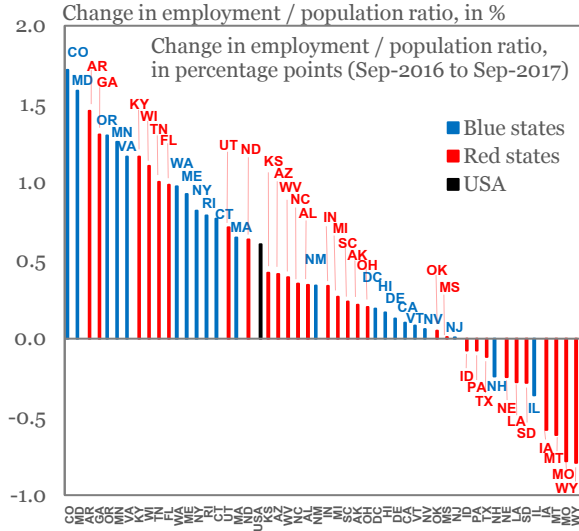
Chart 2: ... with Michigan, Missouri and Texas among them.
Labor force participation rate across US states, in %



We classify states as *red* or *blue* based on how they voted in the Presidential election a year ago. Exhibit 1 shows how labor force participation has changed over the 12 months to September, showing a clustering of *red* states on the right hand side. Of the 30 red states, 17 have seen declines over this period, which is 57 percent of the total. This ratio is the same if we weight by population. In short, the participation drop is broad-based. Exhibit 2 shows the cross-state distribution of participation rates from 1980, highlighting three key red states: Michigan (MI), Missouri (MO) and Texas (TX). All saw participation drop from April to August,

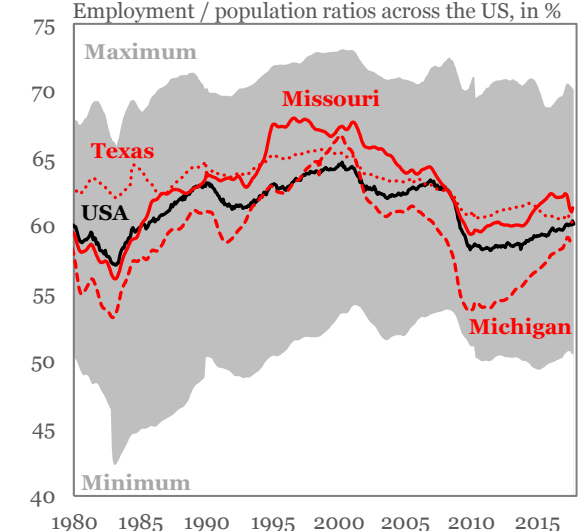
i.e. before the September hurricanes, falling by -1.1 percentage points in Michigan and -1.2 in Missouri and Texas. This trend in participation is weighing on employment-to-population ratios, which are down in 10 out of the 30 red states in the 12 months to September (Exhibit 3). While the employment-to-population ratio has made gains in some states, notably Michigan, this year has seen those gains fade (Exhibit 4). The decline in participation in many places has more than offset solid jobs growth.

Chart 3: Employment-to-population is down as well, ...



Source: Haver, IIF

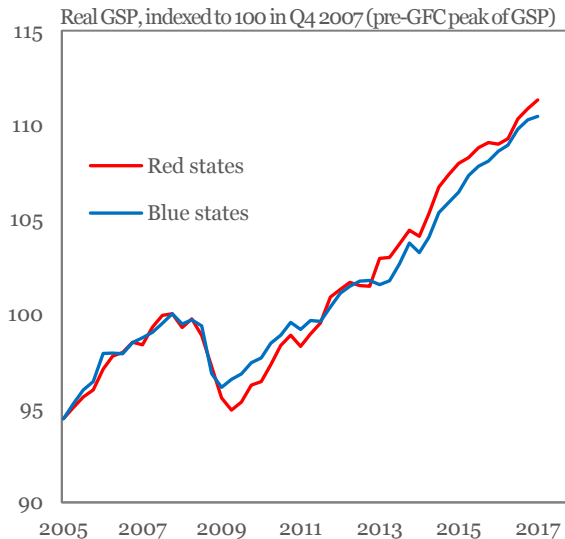
Chart 4: ... with declines predating the September hurricanes.



Source: Haver, IIF

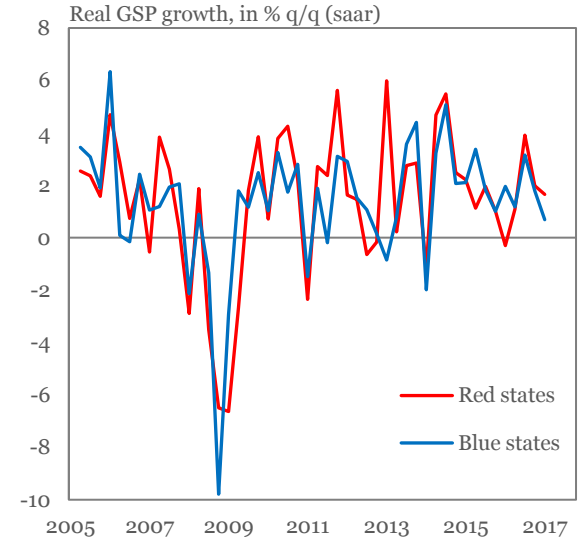
The underlying question many of our readers had is what could be generating the divergence between *red* and *blue* states. Here the jury is still out. We have shown that demographics is unlikely to be a factor, given that the median age in *red* and *blue* states is almost the same. Looking at gross state product, it also doesn't look like this is a story about absolute activity levels (Chart 5) or growth rates (Chart 6). Instead, we suspect it is the composition of jobs growth and the demand for certain skill types that may be causing *red* states to lag the jobs recovery. Coming **Global Macro Views** will examine this in greater detail.

Chart 5: Activity levels do not seem to be a driver, ...



Source: Haver, IIF

Chart 6: ... nor does it look like growth rates are to blame.



Source: Haver, IIF