Employment Growth and Unemployment Rate Often Identify Different Counties As Prosperous

Employment growth and low unemployment are often cited as indicators of prosperity or goals of economic policy. However, they are not closely related at the county level. Many counties combine high-employment growth with high unemployment; many others, particularly in the Midwest, combine low-employment growth with low unemployment.

Because it is easily understood and widely available, the unemployment rate is frequently used as an indicator of overall economic performance. At the national level, periods of strong employment growth are typically associated with lower unemployment. However, the unemployment rate is only one measure of labor market conditions. To get a more complete picture, both the unemployment rate and employment growth must be considered.

The Relationship Between Employment Growth and a Low Unemployment Rate Is Uncertain at the Local Level

Employment growth and a low unemployment rate are often bracketed together as expected joint outcomes of effective economic policies. However, at the local level, the relationship between employment growth over time and reduced unemployment may be weakened by migration and changes in commuting flows. Thus, some communities may experience persistently high unemployment with rapid employment growth, as commuters and migrants rather than local residents fill new jobs. Indeed, high-employment growth may attract would-be workers from other areas and so increase local unemployment levels. Further, communities may have low unemployment despite little or no employment growth, as workers migrate or commute elsewhere for employment.

Counties That Combine High-Employment Growth Rates and High or Rising Unemployment Are Numerous and Widespread

As figure 1 shows, the geographic distribution of low-unemployment-rate counties is quite different from the distribution of high-employment-growth counties. Many counties, particularly in the Midwest and Great Plains, had below-average unemployment rates in 1996 despite below-average employment growth over the previous 6 years. In much of the rural Midwest, high rates of outmigration—particularly by young adults, who typically have relatively high-unemployment rates while they seek a niche in the labor market—keep unemployment rates very low despite the lack of local employment opportunity. Further, in those areas where a large share of the working-age population lives on farms, reported unemployment rates are likely to be depressed, as farm residents who are working on their farms will not be reported as unemployed, even if they receive little income from their farms and are seeking nonfarm employment. Many other counties, widely distributed across the South, West, and upper Midwest, combined above-average employment growth with persistently above-average unemployment. In general, the map shows strong regional patterns in unemployment rates, while employment growth rates vary more from one county to the next.

Even when we compare employment growth with the change in unemployment rates between 1990 and 1996, we can see that in many instances they do not move together (fig. 2). Counties where unemployment rates fell between 1990 and 1996 despite low-employment growth can be found in all regions of the country. Counties where unemployment rates were stable or rose despite above-average employment growth are also numerous and widely dispersed, with some concentration in the Mountain West, and some smaller clusters elsewhere (Nebraska, Tennessee, eastern Texas-western Louisiana).

A tabular comparison of nonmetro counties by employment growth and unemployment rate shows that out of 2,299 nonmetro counties analyzed, just 625 fit a profile of robust employment conditions, with above-average growth rates and below-average unemploy-

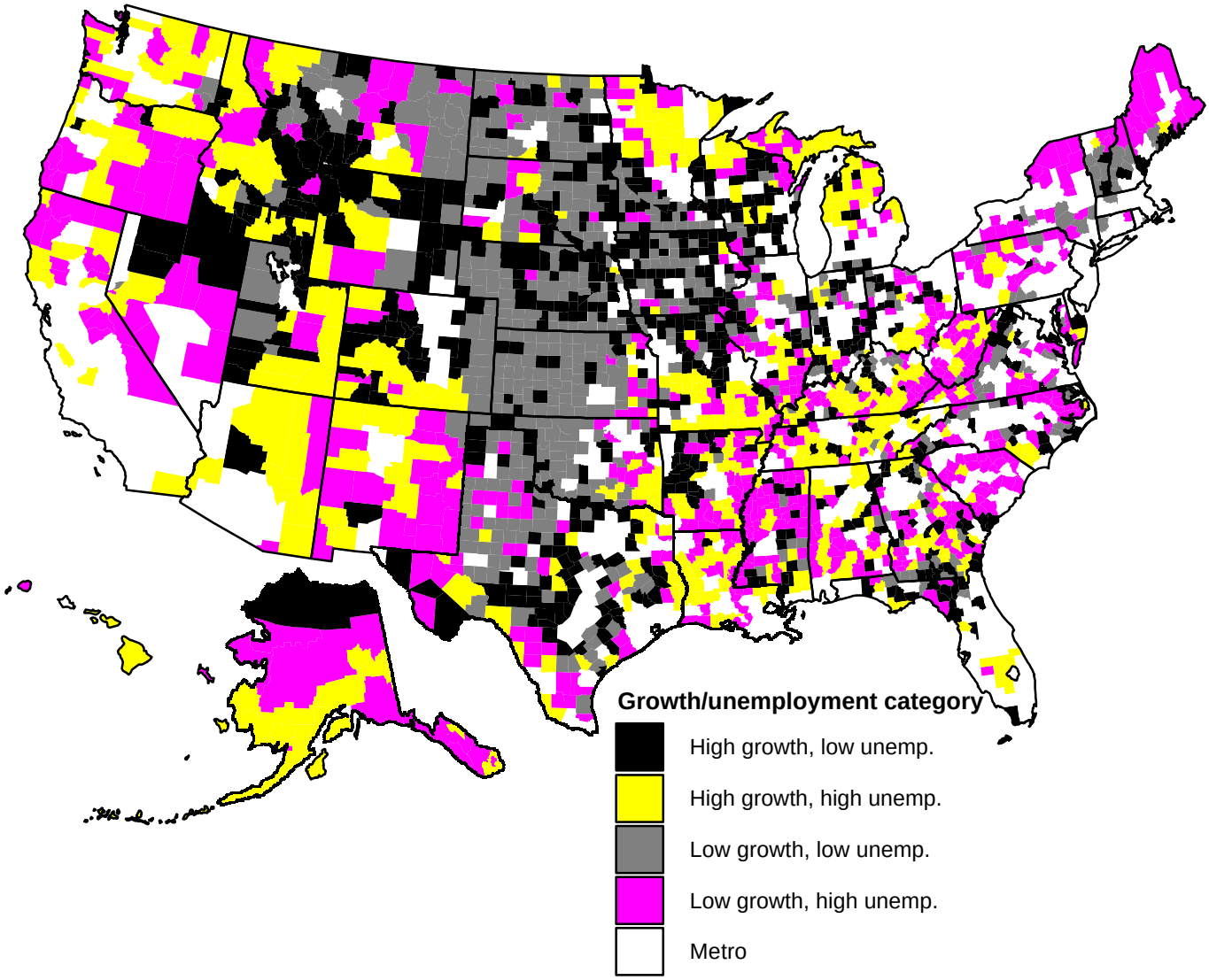
ment rates, while another 630 combined below-average growth rates and above-average unemployment rates for a consistent picture of weak employment conditions (table 1).

On the other hand, more than 1,000 counties (about 45 percent of the total), failed to fit either profile, instead combining high-employment growth with high unemployment, or low-employment growth with low unemployment. Nor were these sparsely populated, marginal counties; together they accounted for more than 41 percent of the nonmetro labor force. In addition, within the larger class of high-unemployment counties, the average unemployment rate was just about as high for those with high-growth rates as for those with low-growth rates; while among low-unemployment-rate counties, the unemployment rate for low-growth counties was only slightly higher than for high-growth counties.

Figure 1

Employment growth 1990-96 versus unemployment rate, 1996

Many areas of high employment growth are also areas of high unemployment



Note: low growth=up to 1.28 percent/year; high growth=over 1.28 percent/year; low unemployment=up to 5.67 percent; high unemployment=over 5.67 percent.

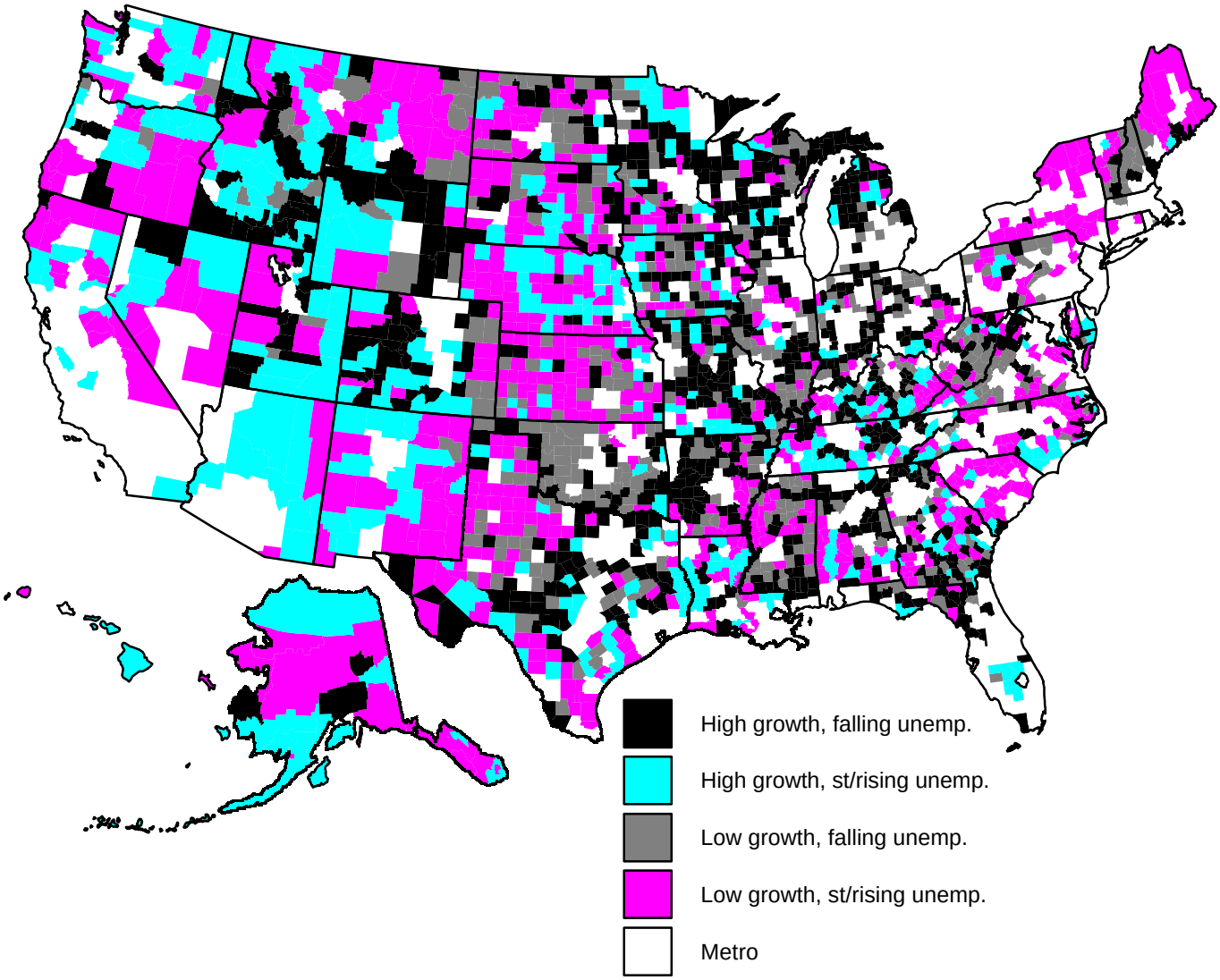
Source: Calculated by ERS from BLS Local Area Unemployment Statistics.

When 1990-96 employment growth rates are instead compared with the 1990-96 change in unemployment rate, we find that high rates of employment growth were accompanied by stable or rising unemployment rates in 436 counties, while another 429 counties combined low (or negative) rates of employment growth with declining unemployment. Together these two groups contain more than one-third of the nonmetro labor force (table 2). Thus, while the pattern that we might expect—faster employment growth associated with falling unemployment, and slow or negative employment growth found together with rising unemployment—does fit the majority of counties, it is far from universal. *[Lorin Kusmin, 202-219-0550 (after October 24, 202-694-5429), lkusmin@econ.ag.gov]*

Figure 2

Employment growth versus unemployment rate change, 1990-96

In some counties, unemployment rates rose even with strong employment growth



Note: Low growth=up to 1.28 percent/year; high growth=over 1.28 percent/year; falling unemployment=decline of 0.07 percentage points or more; stable/rising unemployment=decline less than 0.07 percentage points or increase.

Source: Calculated by ERS from BLS Local Area Unemployment Statistics.

Table 1

Nonmetro counties by growth-unemployment class

Many counties with high employment growth rates during the 1990's continue to have above-average unemployment rates

Type of county	Number of counties	Civilian labor force, 1996	Unemployment rate, 1996	Annual employment growth rate, 1990-96
		Thousands	Percentage points	Percent
High-employment growth, low-unemployment rate	625	8,331.7	4.04	2.63
Low- (or negative) employment growth, high unemployment	630	6,848.5	8.59	-0.03
High growth, high unemployment	526	6,481.1	8.58	2.51
Low growth, low unemployment	518	4,265.1	4.43	0.32
Total	2,299	25,926.4	6.44	1.47

Note: A few county-equivalents in Alaska have been excluded from this analysis because of boundary changes between 1990 and 1996.
Source: Calculated by ERS using Local Area Unemployment Statistics data from the Bureau of Labor Statistics.

Table 2

Nonmetro counties by employment growth-unemployment change class

Many counties with high-employment growth rates during the 1990's nonetheless had stable or rising unemployment rates

Type of county	Number of counties	Civilian labor force, 1996	Change in unemployment rate, 1996	Annual employment growth rate, 1990-96
		Thousands	Percentage points	Percent
High-employment growth, falling unemployment rate	715	9,952.8	-1.52	2.62
Low-employment growth, stable or rising unemployment rate	719	6,780.6	1.62	-0.08
High-growth, stable or rising unemployment	436	4,860.0	1.49	2.50
Low-growth, falling unemployment	429	4,333.0	-1.26	0.40
Total	2,299	25,926.4	-0.09	1.47

Source: Calculated by ERS using Local Area Unemployment Statistics data from the Bureau of Labor Statistics.