

Historically Tight Labor Market Creating Hiring Challenges

Employers in all industries across Wisconsin, including the state's 72 counties, are struggling to find and keep workers. In some ways, the current labor market is similar to the market in the late 1990s when the unemployment rate was setting record lows at 3%.

However, with our current demographics, worker shortages are likely to be with us for many years.

When it comes to recruitment and retention, businesses are faced with a decision to “evolve or die,” according to Eric Vanden Heuvel, vice president of talent and education at the Greater Green Bay Chamber of Commerce. While that may be a bit of hyperbole, employers need to understand the changing workforce landscape and adapt to those changes.

► Not enough workers

Anyone who has done any hiring over the past year knows about Wisconsin's worker shortage. Earlier this spring, the state's unemployment rate fell to 2.8%, below the 3% level seen in the late 1990s.

One reason for the shortage is the decline in workforce participation among those of prime working age (25 to 64 years old). While that population increased 2.4% from 2015 to 2021, the number in the labor force remained

unchanged. Had labor force participation remained at the 2015 percentage, the state would have had 58,000 more people in the workforce in 2021.

The magnitude of the current worker shortage can be illustrated by looking at the number of job openings. In the spring of 2022, Wisconsin had nearly 233,000 job openings according to the U.S. Bureau of Labor Statistics. That figure is up from 125,000 during the spring of 2015 and 75,000 in 2012 (see chart). The state now has 2.5 job openings for each unemployed worker.

► Rising pay

When there are more people who want to purchase a good or service that is in relative fixed supply, the price of that good or service generally rises. The record number of job openings indicates that more businesses are looking to hire (purchase) workers. With little growth in the supply of workers, the price of labor is rising.

From 2019 to 2021, the average wage in Wisconsin increased 8.7% according to the Bureau of Labor Statistics. Two-year wage increases were significantly higher than during the prior two years when they rose 5.6%.

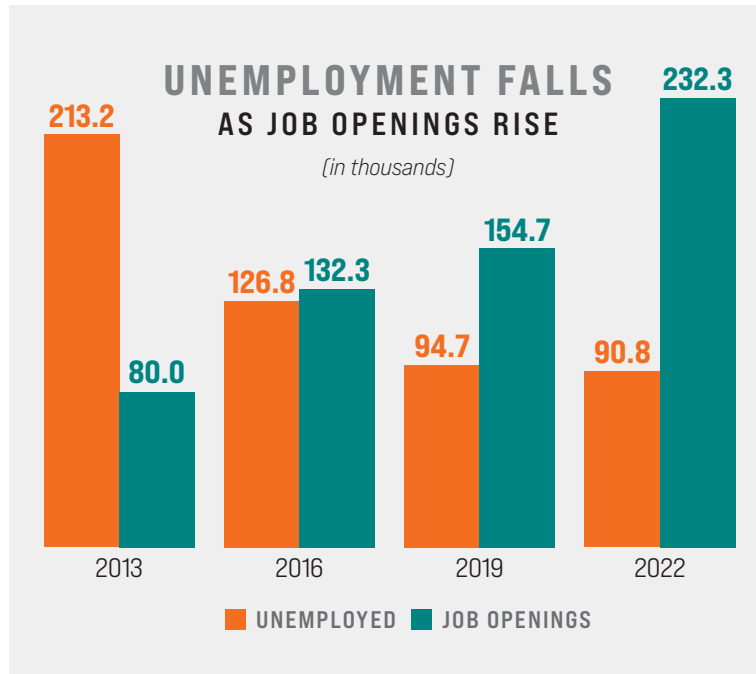
But average pay masks some of the bigger changes

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happening in today's labor market. Essentially, wages are being "pushed up" from the bottom. In general, wages at the lower end of the pay scale are increasing faster than wages toward the top of the scale.

For example, earnings at the 10th percentile (10% of all workers earn less) rose 13.5% from 2019 to 2021, nearly five percentage points more than the average wage. Meanwhile, wages at the 75th percentile increased less than 4% during these two years.

This "pushing up" phenomenon is also evident when occupations are sorted by their average wage. In the lowest paying occupations, the average wage rose 11.8% from 2019 to 2021. Wages for occupations in the middle of the pay scale rose 6.6% while the highest paying occupations saw wage increases of 3.9%.

► Navigating the new normal

The current labor market is generally good for workers. Wages are rising at the fastest rate in at least 20 years and there are record numbers of job openings, providing options for those looking to change jobs or advance in their field. Workers also have more bargaining power on both pay and benefits than they have had in the past.

However, this creates challenges for employers in

retention and hiring. For counties, the challenges are greater because their revenue growth is limited by property tax levy limits and heavy reliance on state aid, which often increases slowly.

With limited

revenues, the pay issue will continue to be a challenge for Wisconsin counties. However, they have an advantage in one key benefit — the state retirement system, which is considered one of the best in the nation. That is a benefit that needs to be emphasized to current and prospective employees.

Recent studies also show that workplace culture matters. In a recent Microsoft study, 24% of young people cited lack of a work-life balance as the main reason for leaving a job. Another 24% cited well-being or mental health while 21% said lack of flexibility in work hours or location was the reason for quitting. Creating an attractive workplace culture often can be done at little cost.

The current workforce environment is likely to be with us for at least the next decade. Counties are not going to "die," but some may need to "evolve" to continue being an attractive place to work. ■

Forward Analytics is a Wisconsin-based research organization that provides state and local policymakers with nonpartisan analysis of issues affecting the state.