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Labor's changing face

Increasing numbers of immigrants are answering the call for workers in the Ninth District

"They came here just as fast as we could possibly hire them."
—*Mark Heuston*
Dakota Provisions

Sah Wah Shee, a Karen refugee from Myanmar, works at Dakota Provisions, a turkey processing plant in Huron, S.D.

By PHIL DAVIES
Senior Writer

When Dakota Provisions opened for business in 2005, acquiring over 400,000 live turkeys a month to process into cold cuts, ground turkey and other products was easy. Hiring enough workers to staff the $120 million plant in Huron, S.D., was harder. In a city of 11,500 people surrounded by corn and soybean fields, not enough locals were willing to man the production lines, at least for the going wage at the plant.

"We started out trying to employ a local workforce," said Mark "Smoky" Heuston, human resources director for the plant. "Six months to a year after, because we were growing, we had to go out and find workers from other areas."

The plant recruited Latino workers who came to the Huron area from southern states and other countries such as Mexico and Guatemala. But interviewing Latino workers was time-consuming and frustrating because many proved ineligible to work in the United States; they were illegal immigrants. So Heuston turned to another source of foreign-born labor: Karen refugees from Myanmar.

In recent years, many Karen, an oppressed ethnic group in the Southeast Asian country (formerly Burma) have been admitted to the United States as refugees. Heuston went to St. Paul, Minn., to recruit Hmong—another ethnic group from Southeast Asia—and met some Karen in an English language class for refugees. He offered jobs to a family and a single man—the start of a major Karen migration to Huron from St. Paul, Green Bay, Wis., Lincoln, Neb., and other communities around the country. "They came here just as fast as we could possibly hire them," Heuston said.

Today more than two-thirds of the production workforce at Dakota Provisions is Karen, and about 170 Karen families have settled in the area, spurring new housing construction.

PHOTOGRAPHY BY CAMERON WITTIG

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Efforts to overhaul the U.S. immigration system have thrown a spotlight on foreign-born labor. Most of the debate in Washington has focused on illegal immigration—how to secure the Mexican border and whether to provide a "path to citizenship" for undocumented workers. But proposed changes in immigration law would also affect a large number of foreigners authorized to work in this country, particularly recently arrived immigrants. For example, loosening restrictions on work visas may increase inflows of H-1B visa holders—highly skilled temporary workers coveted by many employers in scientific and technical fields.

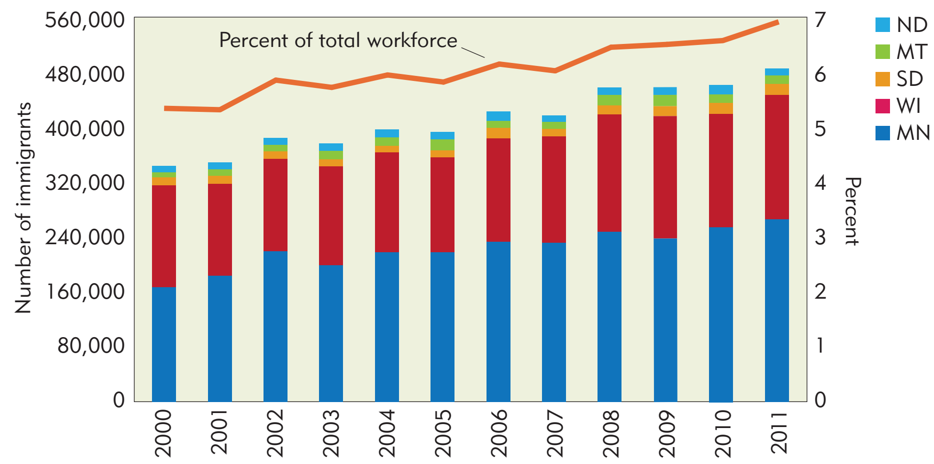
The immigrant workforce in the Ninth District has increased in recent years, outpacing growth in the overall workforce, according to the U.S. Census Bureau. Industries in which foreign workers are in high demand include food processing, agriculture, information technology and health care. Demand is especially acute in rural areas with low unemployment or that are off the beaten path for doctors and other sought-after professionals.

Labor demand combined with migration patterns has fostered concentrations of foreign workers in many district communities—clusters of immigrants from certain countries or regions of the world that grow as new immigrants arrive seeking opportunity. The strong presence of immigrants in these markets stems partly from the reluctance of U.S.-born workers to take jobs in industries such as farming and meat packing at the prevailing wage.

This article offers a portrait of immigrant workers in the district, with a focus on new immigrants—where they come from, how they enter the workforce and why certain industries have come to depend upon their foreign labor.

Chart 1

More foreign workers in the 9th District



Source: U.S. Census, American Community Survey, Integrated Public Use Microdata Series (IPUMS-USA)

Quick Take

Congressional efforts to overhaul the U.S. immigration system have thrown a spotlight on the foreign-born, whose contribution to the Ninth District workforce has increased in recent years. Recent immigrants—those who entered the United States within the past five years—come predominantly from Asia, Latin America and Africa as legal immigrants, temporary "guest workers" and unauthorized workers who cross U.S. borders or overstay their visas.

Many new immigrants hold lower-paying jobs in the production and service sectors. But highly educated foreign workers, including guest workers on H-1B visas, cluster in well-paying occupations such as information technology and health care.

Labor demand, together with other factors, has fostered concentrations of foreign workers in many district communities, such as the Twin Cities, St. Cloud, Minn., and Sioux Falls, S.D. An aging native-born labor force means that foreign workers are likely to play a more important role in the district economy in the future.

Immigrant labor on the rise

The contribution of immigrants to the American workforce and economy goes back to the nation's founding. Early immigrants from Britain worked on farms and in households as indentured servants. In the mid-19th century, Germans and Scandinavians crossed the Atlantic to claim Midwestern farmland, while Irish fleeing the potato famine settled mostly in urban areas. The late 1800s and early 20th century saw successive waves of immigrants from Southern and Eastern Europe who provided the muscle for burgeoning industry. More recently, in the 1960s, landmark immigration legislation opened the United States to workers from Latin America, Asia and Africa.

Today about one in six U.S. workers was born in another country. District states—far from traditional immigrant gateways on the coasts and along the Mexican border—are home to comparatively fewer foreign workers. In 2011, the foreign share of the workforce in the district ranged from a high of 9 percent in Minnesota to just 2.5 percent in Montana, according to Census estimates based on household surveys.

But as Chart 1 shows, the ranks of the immigrant workforce are swelling in the district. From 2005 to 2011, the number of foreign-born either employed or looking for work in district states increased about 4 percent annually—a growth rate more than four times that of the total workforce. (However, there was considerable variation among states; South Dakota's immigrant workforce grew by more than half over this period, while Montana's fell by about 20 percent.) Thanks to this growth, in 2011 the foreign share of the district workforce was higher than at any point in the past 60 years.

Growth of the immigrant workforce has been much greater in the district than in the country as a whole—a trend driven partly by the strength of district state economies relative to the rest of the country. In Minnesota, the district state with the largest immigrant population, the nonnative workforce declined during the Great Recession. But it has rebounded during the recovery, gaining 28,000 workers from 2009 to 2011.

Minnesota State Demographer Susan Brower attributes the resurgence in her state to a lower-than-average unemployment rate and a high concentration of jobs in information technology, health care and other industries that employ foreign workers.

The newcomers

A *fedgazette* analysis of individual Census records found that in 2011, about 20 percent of the foreign-born workforce in district states had come to the United States within the past five years. Since 2005, this ratio has risen as high as 30 percent—evidence of a constant infusion of newcomers into the nonnative population. Moreover, the Census data show that a large share of these new immigrants had

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One of the Minneapolis Fed's congressionally mandated responsibilities is to gather information on the Ninth District economy. The fedgazette is published quarterly to share that information with the district, which includes Montana, North and South Dakota, Minnesota, northwestern Wisconsin and the Upper Peninsula of Michigan.

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moved to the district even more recently; in 2011, roughly half reported that they were living in a state outside the district or in another country the previous year. (The number of foreign residents leaving the region or the United States each year is unknown.)

New immigrants are less likely to be acclimated to life in America than the overall foreign-born population—unfamiliar with the culture, not fluent in English, possessing skills imperfectly matched to the job market. Because many recent arrivals are neither U.S. citizens nor permanent residents ("green card" holders permitted to work in the U.S. indefinitely), they would be affected the most by changes in immigration laws.

Most of these recent arrivals come from Latin America, Asia and Africa, but over 100 countries from every corner of the globe export labor to the region. The origin of recent immigrants in the district workforce skews differently from that of the nation, with fewer Latinos and more Asians and Africans. And both nationally and in the district, the sources of new foreign labor have changed over the past half-decade (see Chart 2).

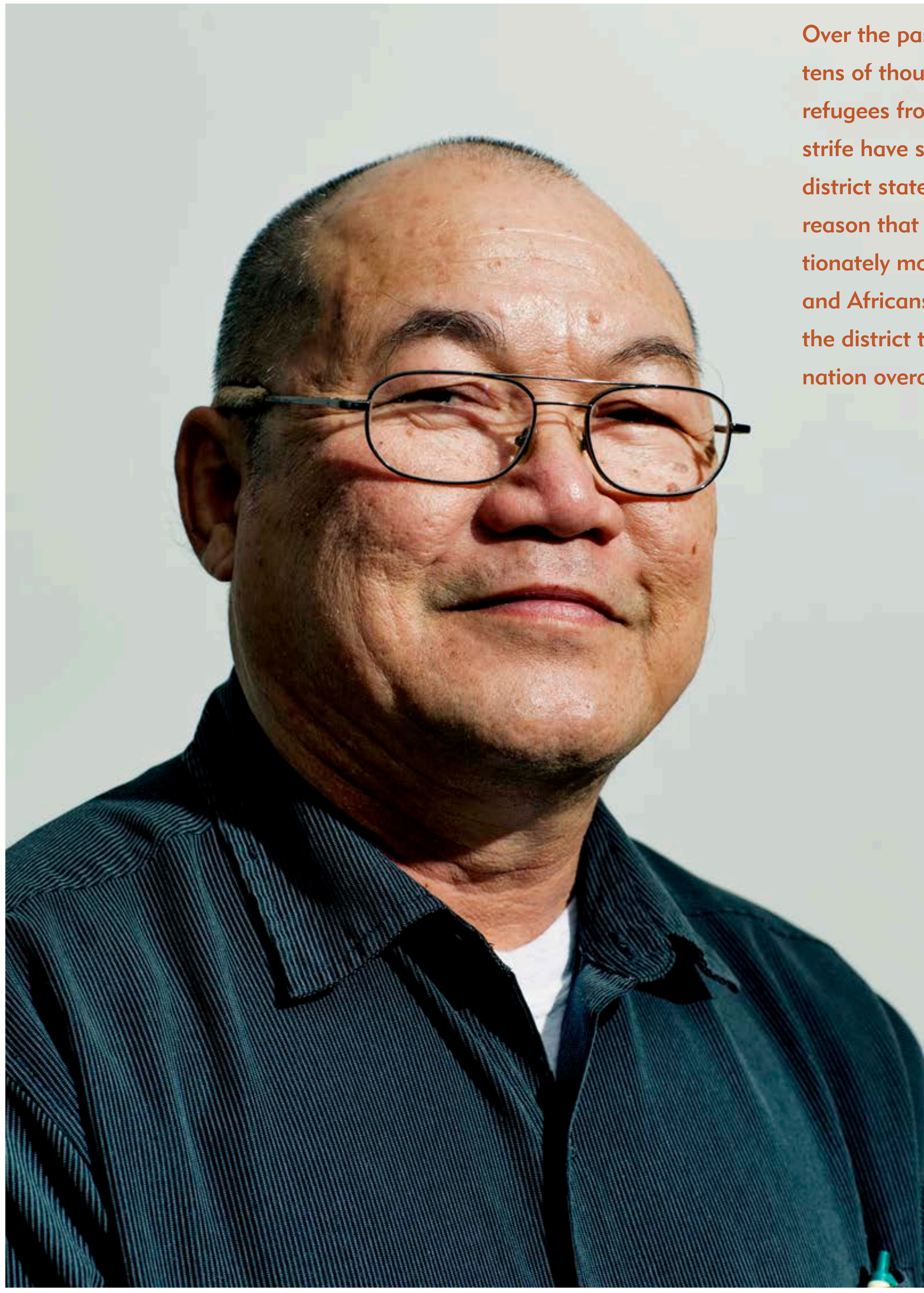
From 2005 to 2011, the share of Latinos among recent arrivals shrank, while the proportion of Asians expanded. This pattern held in every district state except South Dakota, where the share of people from Mexico and Central America increased. Brower noted that migration from Mexico has fallen due to the U.S. recession and improved economic conditions south of the border. "The Mexican economy has picked up, and there are more job opportunities there than in the past," she said. "Overall, the supply of Mexican immigrants has diminished in the U.S., and we're seeing some of the effects of that here in Minnesota."

Meanwhile, many states in the district and across the country have seen an influx of refugees, high-skilled temporary workers and university students from Asian countries such as China, India, South Korea and Myanmar. Between 2006 and last year, Asian enrollment in the North Dakota University System more than tripled to almost 900 students, according to system records.

Ready to work

The foreign-born move to areas where they can find jobs suited to their work experience and abilities. They also pull up stakes to join relatives, friends or an established expatriate community, but employment often determines whether

Continued on page 4



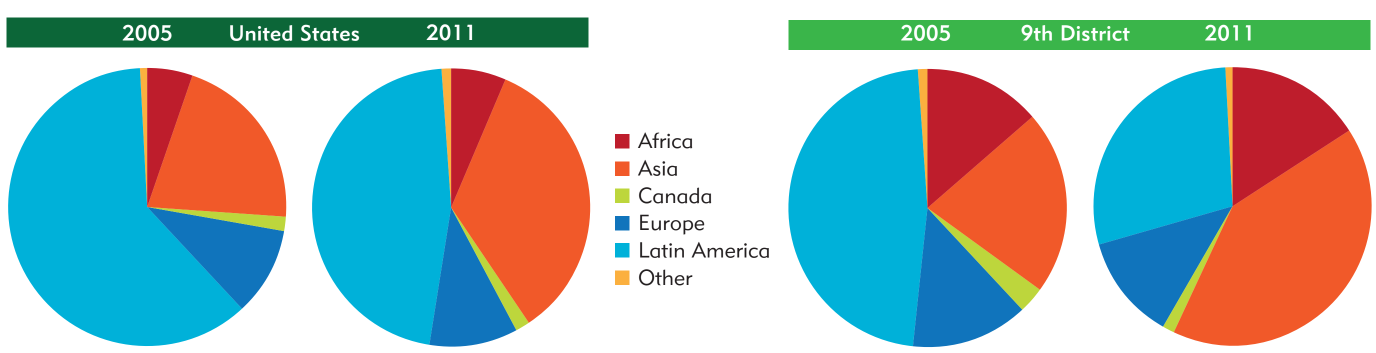
Over the past decade, tens of thousands of refugees from global strife have settled in district states—one reason that proportionately more Asians and Africans live in the district than in the nation overall.

Dickson Sandy, a Karen refugee from Myanmar works for Dakota Provisions in Huron, S.D.

Chart 2

A shifting global mosaic

Recent immigrants* in the district workforce by continent of origin



* Entered the U.S. within the past 5 years
Source: U.S. Census, American Community Survey, Integrated Public Use Microdata Series (IPUMS-USA)

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they stay in a community or move on.

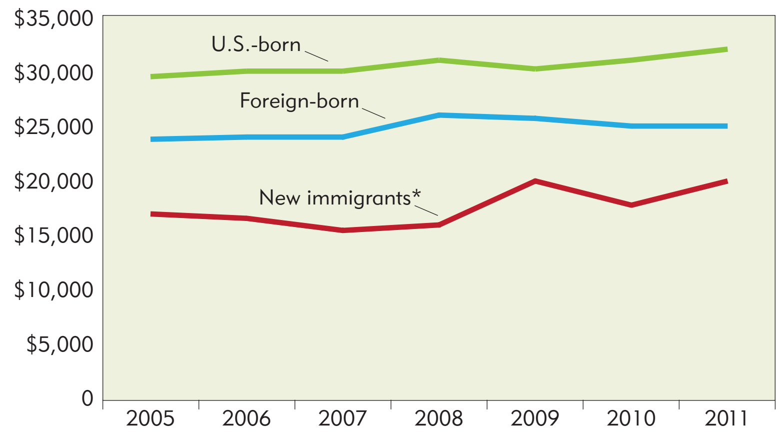
As a group, immigrants receive lower wages than U.S.-born workers; in 2011, the median wage for foreign workers in district states was about 75 percent of the wage for the native-born (see Chart 3). New immigrants earn much less than either the native-born or immigrant workers overall—as one might expect, given that most recent arrivals haven't mastered English or amassed much work experience.

Recent arrivals cluster in industries such as manufacturing, food preparation, farming, personal care and building maintenance (Chart 4). Many occupations in these industries—meat processing and nursing assistance, for example—pay annual wages under $31,000, the median for all district workers in 2011.

Chart 3

The earnings divide

9th District median wages, immigrants vs. native-born

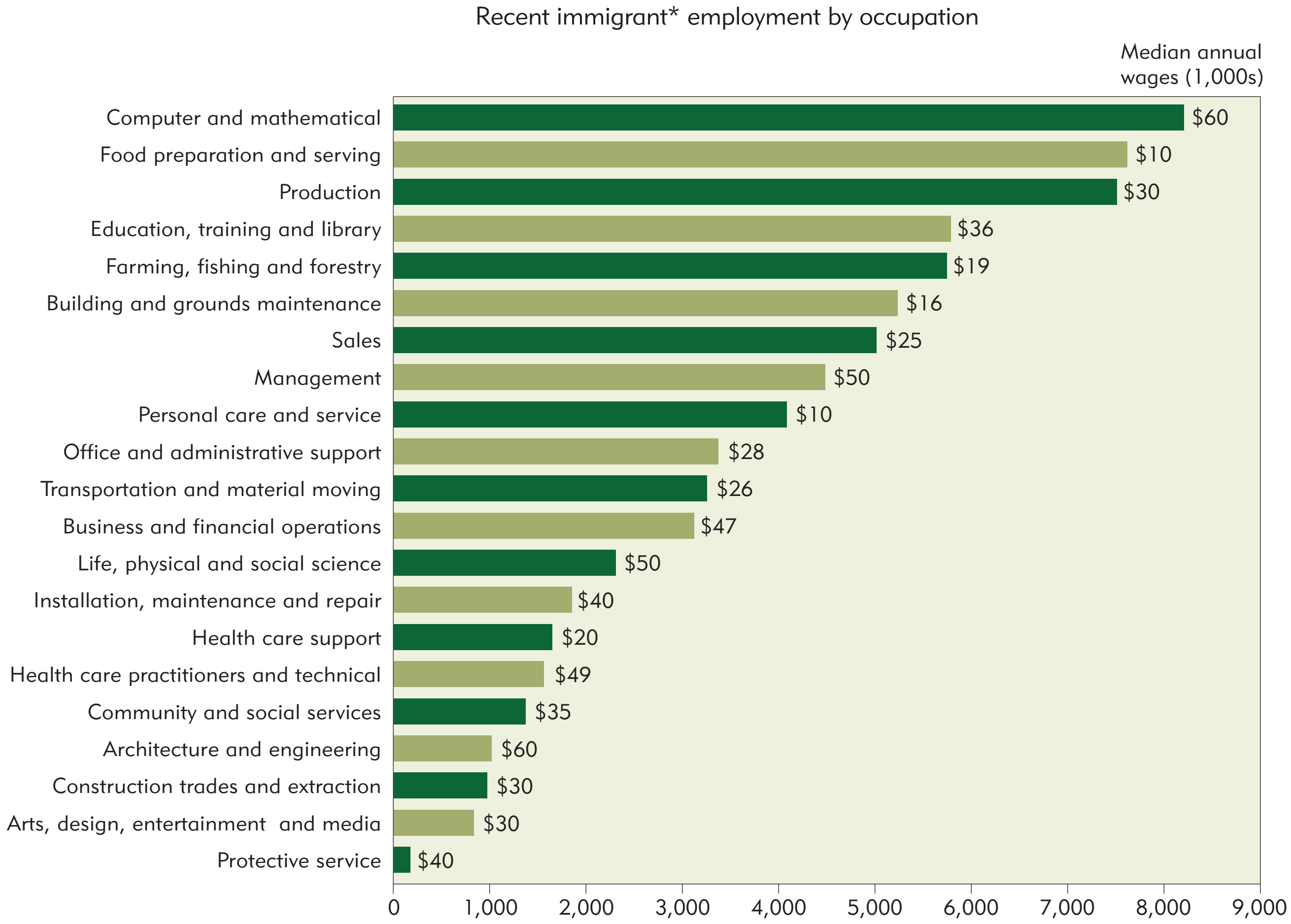


* Entered the U.S. within the past 5 years
Source: U.S. Census, American Community Survey, Integrated Public Use Microdata Series (IPUMS-USA)

Chart 4

Low- and high-paying work for new immigrants

Recent immigrant* employment by occupation



* Entered the U.S. within the past 5 years
Source: U.S. Census, American Community Survey, Integrated Public Use Microdata Series (IPUMS-USA)

But a subset of new immigrants—almost one-quarter of the total—is concentrated in occupational groups such as computing, the sciences and higher education that pay median annual wages of at least $50,000. (These high earnings elevate the average pay of all new immigrants.) Census data show that in Minnesota, over 3,700 newly arrived foreigners held computer and mathematics jobs in 2011; of those, about 80 percent were born in India—part of a wave of migration by highly educated Indians to places like the Twin Cities suburbs and Rochester over the past decade.

In the district and across the nation, employers hire foreign workers because they cannot—or choose not to—fill positions with homegrown labor. In a recovering economy, employers face tight labor markets in some areas, such as Sioux Falls, S.D., a booming agricultural, financial and health care center where the unemployment rate was 3 percent in August. "The difficulty for everyone is, when unemployment gets that low, the pool of very productive, reliable and skilled employees becomes smaller and smaller," said Kent Alberty, co-owner of Employment Edge, a local staffing firm.

Native-born workers with highly desired skills—doctors, engineers, web developers—may be particularly scarce. Foreign workers provide an acceptable, sometimes preferable, substitute.

But for the most part, employers turn to foreign workers—particularly new arrivals—as a source of inexpensive labor. In many district communities, new immigrants may be the only workers around who will take certain types of production and service jobs at the wages offered (see article on page 10 for more on the impact of immigrants on the labor market and the economy).

Several distinct streams of U.S. migrants come together to form the immigrant labor pool. Hiring some types of foreign workers is often a simple matter of phoning a refugee resettlement agency or placing a newspaper ad. Acquiring others, such as H-1Bs and other classes of guest workers, can be much more difficult, involving fees and paperwork to comply with regulations that have tightened in recent years.

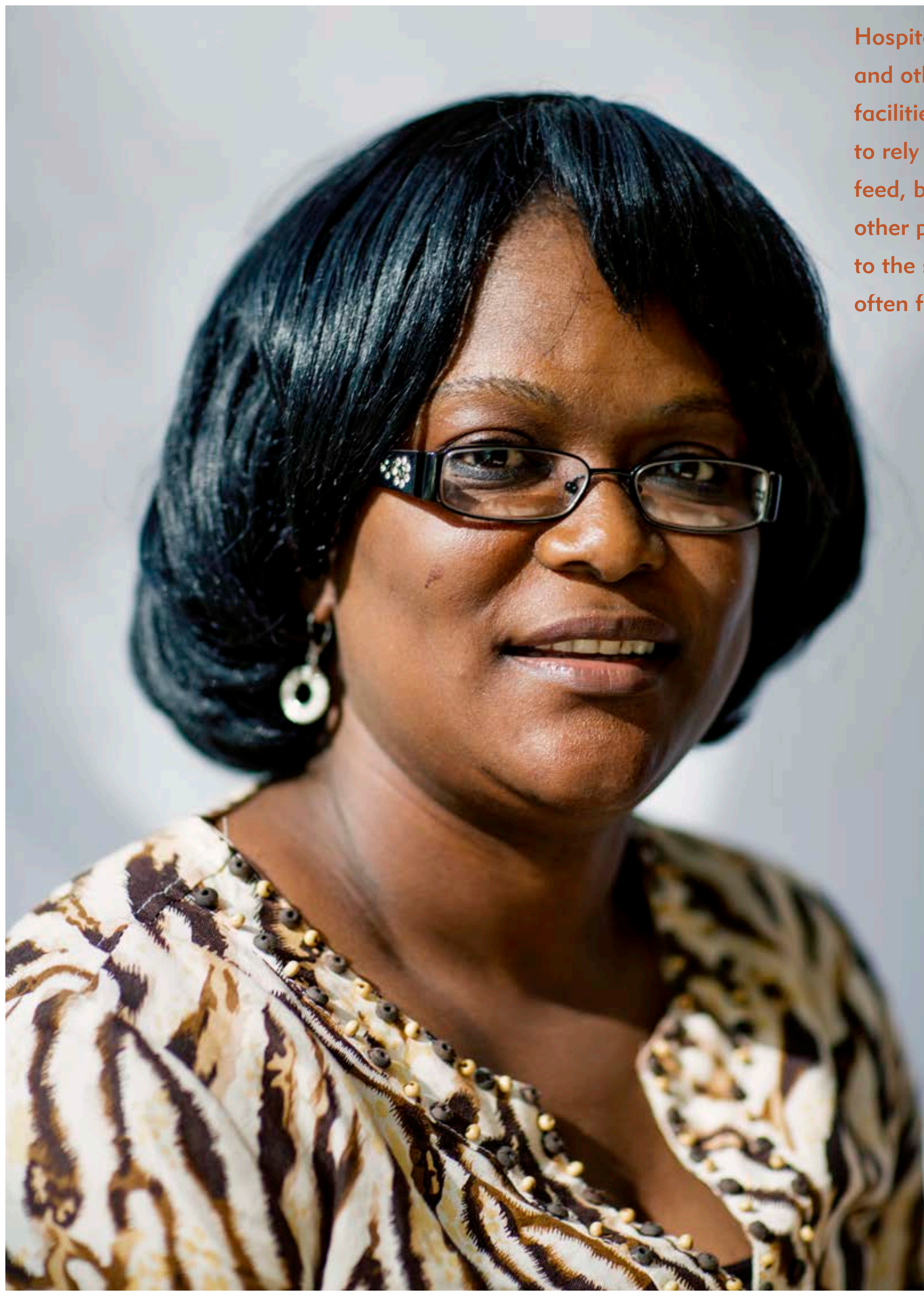
From oppression to opportunity

Over the past decade, tens of thousands of refugees from global strife have settled in district states—one reason that proportionately more Asians and Africans live in the district than in the nation overall. Refugees from countries such as Somalia, Eritrea, Sudan, Iraq, Myanmar and Bhutan contribute to a larger share of migrants from those continents.

Minnesota leads the district (see Chart 5) and is among the top U.S. states on a per capita basis in accepting refugees, immigrants permitted to live and work in the country permanently.

In most district states (Montana, with virtually no refugee resettlement, is the exception), social welfare organizations such as Lutheran Social Services (LSS) help refugees learn English, find housing and land jobs. Minnesota has additional organizations playing a large role, including Catholic Charities and the International Institute of Minnesota in the Twin Cities, which sponsored 383 refugees in 2012 and 400 through September of this year.

In addition to refugees who come directly to the district from their home countries, some district states also attract significant numbers of secondary migrants—refugees who move from elsewhere in the country, either to join family members or to find work. That's how the Somali community in Minne-



Nolay Freeman heads the nursing staff of St. Therese at St. Odilia, a palliative care facility in the Twin Cities. She came to Minnesota as a refugee from Liberia.

Hospitals, nursing homes and other health care facilities have come to rely upon refugees to feed, bathe and provide other personal care to the sick and elderly, often for low pay.

sota has grown from a small core in the 1990s to become the largest in the country, notes Kim Dettmer, who oversees refugee settlement in the St. Cloud area for LSS. "Refugees may have resettled in Texas or another state, but they really want to live in Minnesota."

Either because they lack the requisite skills or speak poor English, most refugees fill relatively low-paying jobs in industries such as food processing, light manufacturing and health care support. Resettlement agencies, which receive federal funding to assist refugees, provide pre-employment counseling and training. LSS's Immigration and Refugee Office in Sioux Falls works with local employers to prepare refugees for entry-level production positions. "Refugees are entering positions that right now are not being filled [by U.S.-born workers], and we've had great success with that," said Director Tim Jurgens.

Refugees make up much of the workforce at meat-packing plants in Sioux Falls, St. Cloud and other district communities.

Dakota Provisions readily hires refugees settled by LSS and secondary migrants who move to Huron from elsewhere in the country. Heuston said the Karen are industrious workers who learn readily on the job and turn up every day (turnover has fallen as the proportion of refugees on the payroll has risen). Line workers earn about $12 per hour—a competitive wage in meat packing, but not enough to induce U.S.-born workers to take jobs processing turkey meat, he said.

Hospitals, nursing homes and other health care facilities also have come to rely upon refugees to feed, bathe and provide other personal care to the sick and elderly, often for low pay. At some long-term care facilities in the Twin Cities, 80 percent of the staff are refugees who have taken nursing assistant training offered by the International Institute, said Amanda Smith, refugee services director for the organization.

Census data indicate that most immigrant workers in health care facilities come from African nations such as Ethiopia, Somalia and Liberia; in Minnesota in 2011, Africans accounted for about three-quarters of recently arrived immigrants working as nursing assistants and in other entry-level health care jobs.

Give me your doctors and engineers ...

At the other end of the wage spectrum are H-1B visa holders, highly educated and skilled workers who labor in office towers, hospitals and universities. H-1Bs are one class of guest workers permitted to work temporarily in the United States under federal programs meant to help firms adapt to changing economic conditions (see "Be my guest" on page 6).

Workers with H-1Bs typically hold well-paying jobs in fields requiring specialized knowledge, such as information technology, health care, finance and academia. In 2011, the average annual salary of an H-1B worker in Minnesota was over $65,000, according to the U.S. Department of Labor (DOL).

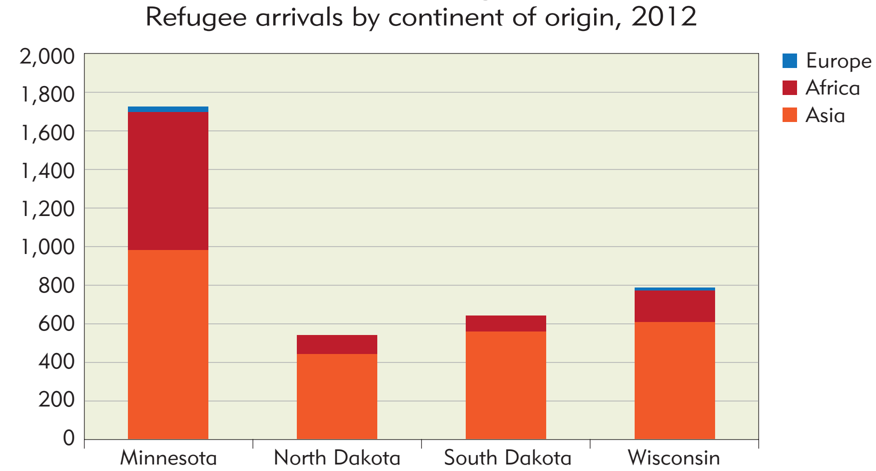
Nationwide, demand for H-1B guest visas exceeds supply, because of a statutory cap of 65,000 on the number of new visas issued annually. Employer requests for H-1Bs have exceeded the number

Continued on page 6

Chart 5

Minnesota leads in refugee resettlement

Refugee arrivals by continent of origin, 2012



Source: U.S. Department of Health & Human Services, Office of Refugee Resettlement

Be my guest

The federal government administers a veritable alphabet soup of guest worker visa programs through which employers may hire foreign workers on a temporary basis. Each is designed for specific types of workers, and there are rules meant to protect visa holders and U.S. workers.

Most work visa programs are administered by U.S. Citizenship and Immigration Services and the Department of Labor's Employment and Training Administration. The U.S. Department of State is chiefly responsible for the J-1 cultural exchange program. A brief guide:

Program	Type of worker	Term of visa	National cap	Key requirements
H-1B	Foreign worker in specialty occupation such as bioscience, health care, finance, engineering and information technology.	Initially up to three years, but can be extended to a maximum of six years.	65,000 annually (academic research institutions are exempt). Under proposed immigration reform, the cap would fluctuate between 115,000 and 180,000 based on employer demand and the unemployment rate.	Worker must have at least a bachelor's degree or its equivalent. Employer attests that the H-1B worker will be paid the prevailing wage for the work and that hiring the worker won't adversely affect the working conditions of similarly employed U.S. workers.
H-2A	Agricultural workers hired for temporary or seasonal jobs.	Generally one year, with extensions up to a maximum of three years.	None.	Employer attests that there are not enough qualified and willing U.S. workers to do the job and that hiring the H-2A worker won't adversely affect the wages and working conditions of similarly employed U.S. workers.
H-2B	Nonagricultural worker hired seasonally or intermittently.	Generally one year, with extensions up to maximum of three years.	66,000 annually.	Same as for H-2A visa.
J-1	Cultural exchange visitors such as college students, resident physicians, camp counselors and au pairs.	For students, duration of studies plus up to three years. One to three years for other exchange programs.	None.	Employers hire workers through designated sponsors such as universities, cultural organizations and government agencies, which require participants to engage in cultural activities as well as work.

Other guest worker programs include the O-1 visa, for foreigners with extraordinary ability in the sciences, arts, education, business or athletics; the L-1A, for corporate transfers from abroad; and the H-1C, for foreign nurses working as registered nurses in medically underserved areas.

Proposed immigration reform would create new guest-worker categories meant to ease restrictions on foreign temporary labor without harming U.S. workers. The "W" visa would allow low-wage nonagricultural workers to work year round, not just seasonally as in the H-2A and the H-2B programs. And undocumented agricultural workers who can demonstrate that they've worked in the country for a certain amount of time would be issued a "blue card" and permitted to apply for permanent U.S. residency.

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issued every year over the past decade, and this year's quota was filled in less than a week after filings began in April. There are no data on work visa issuances by state, but a look at visa applications in the district indicates that employer demand for H-1Bs is high in the region—and probably not being met.

The DOL's Office of Foreign Labor Certification must approve employer requests for H-1Bs. Figures compiled by the DOL show a sharp increase in H-1B certifications in district states from 2009, when the recession ended, to 2011 (see Chart 6).

Certifications were concentrated in Minnesota and Wisconsin, and in district cities with large universities and thriving computer and health care industries. In 2011, Twin Cities employers accounted for over 8,000 certifications, and there were over 650 in the Fargo area, home to a Microsoft campus and Sanford Health, the largest rural nonprofit health care system in the country.

But the number of H-1Bs ultimately issued by the U.S. State Department is significantly smaller; nationwide in 2011, there were six times as many visa certifications as issued visas. It's not known whether rates are higher or lower in district states.

District hirers of H-1Bs say they provide critical expertise—knowledge and abilities not always available in the domestic workforce—that helps them to develop new products and services or expand their operations.

At Microsoft's complex in Fargo, hundreds of H-1B visa holders work in product R&D, tech support and internal computer systems. The majority come from India, Pakistan, China and Eastern Europe. Campus head Don Morton says that smart, highly capable workers from overseas are needed to keep the software giant competitive in a borderless market.

"We compete globally for customers … and we compete globally for talent," he said. "Regardless of whether a person is foreign-born or native-born, we're going to try to hire the very best talent available." Like many high-tech executives, Morton believes that not enough talented U.S.-born college students are pursuing science, technology, engineering and math (STEM) degrees.

In the health care industry, foreign-born physicians on H-1B visas fill job openings in rural areas of the district. Hospitals and clinics operating in northern Minnesota and much of North Dakota say they struggle to hire enough U.S.-born doctors, especially specialists in less popular medical fields or those willing to provide primary care in small towns.

"The biggest challenge is giving a sales pitch to a physician to come and practice medicine in a rural western Minnesota community of a thousand or two thousand," said Dr. Richard Marsden, senior executive vice president of Sanford Health's outpatient services in Fargo.

By hiring H-1Bs, Sanford can skip the sales pitch in most cases. The company has hired scores of foreign physicians and last summer employed over 80 H-1B doctors, including specialists in family medicine, cancer treatment, pediatrics and critical care. Most of them came to Sanford right out of a U.S. medical school and are required to work in underserved areas for at least three years as a condition of receiving their H-1Bs. As a research institution, Sanford is exempt from the annual nationwide cap on H-1B visas.

Securing the services of H-1B workers is a time-consuming and expensive proposition for employers. The application process can take up to six months, and immigration authorities charge fees of $2,300 to $3,500 per worker. Such fees, including a payment that helps to fund job training for U.S-born workers, have risen over the past five years. Then there are typical attorney's fees of over $1,500 for each worker—which the employer pays regardless of whether their visa application is successful. This year, because the national H-1B visa cap was exceeded, a lottery was held to determine winners and losers.

Despite the overall increase in H-1B applications, "a lot of employers are forgoing the program, because it's become so expensive," said Sam Myers, an immigration attorney with the Myers Thompson law firm in Minneapolis.

… and I'll take your waiters and farm laborers too

In addition to the H-1B program, there are work visa programs geared to low- and semi-skilled workers—the H-2A visa for agricultural workers and the H-2B for nonfarm workers. These programs are seasonal as well as temporary; most lower-skilled guest workers in the district return to their home countries at the end of the summer or after the fall harvest.

In district states, the DOL certifies far

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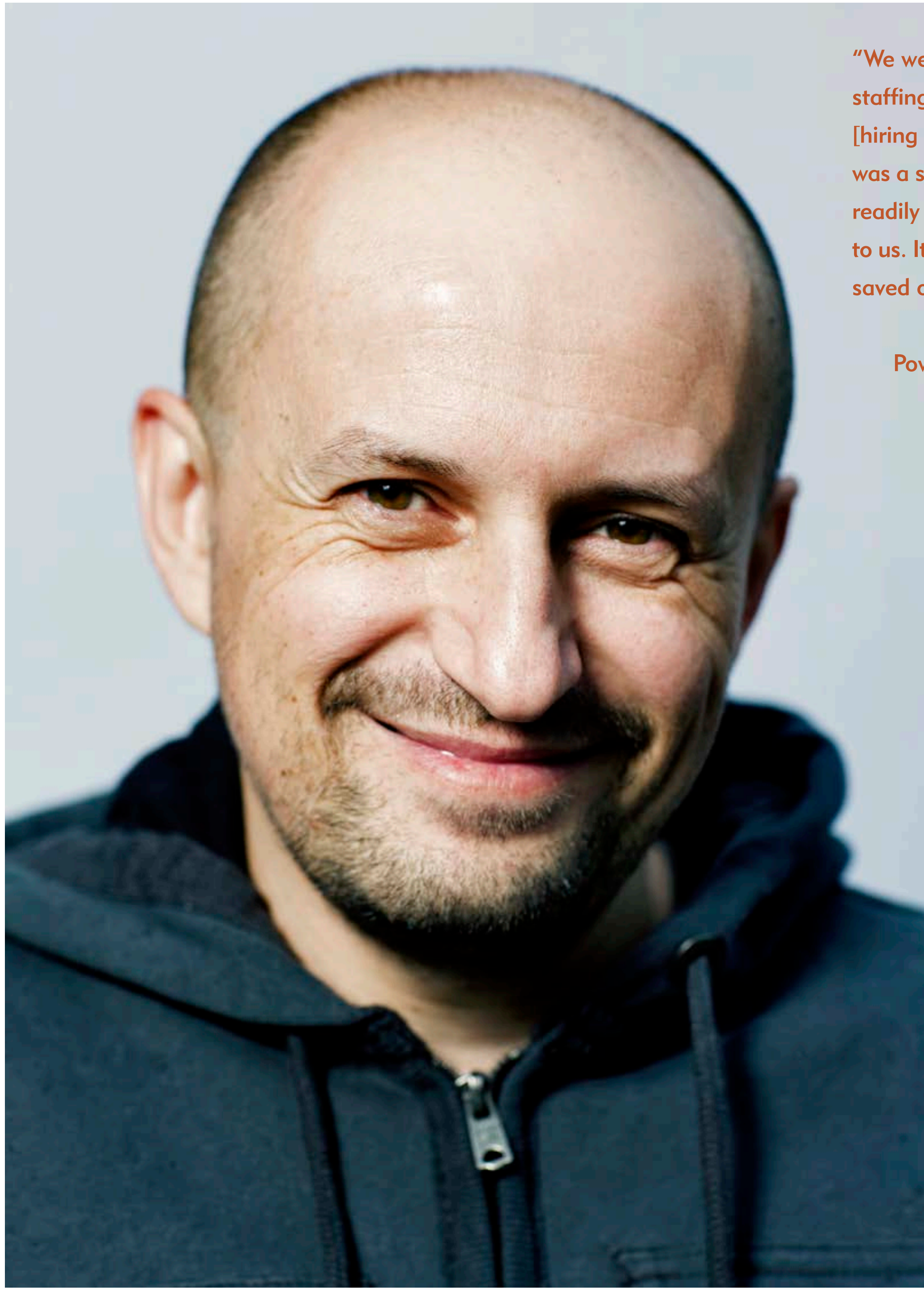


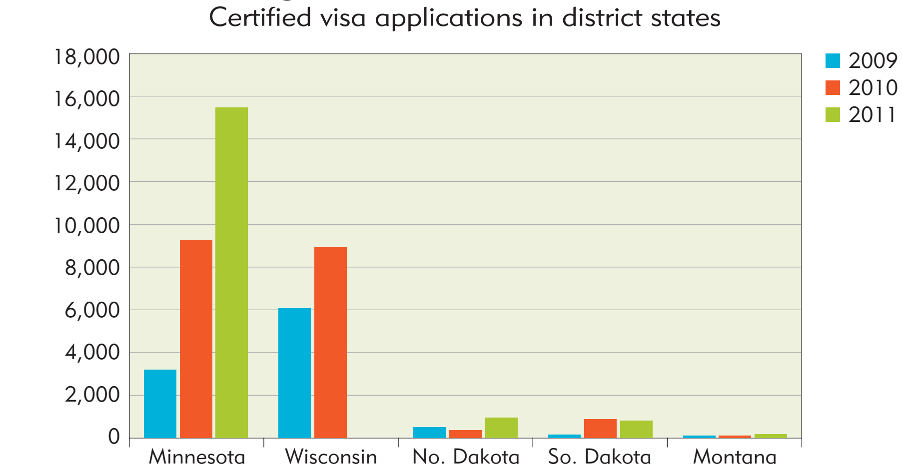
"We were just having staffing problems, and [hiring foreign workers] was a solution that was readily available to us. It has honestly saved our business."
—Ben Brink
Powder House Lodge and Resort

Borislav Borisov, an H-2B guest worker from Bulgaria, is the sous chef at the Powder House Lodge and Resort near Keystone, S.D.

Chart 6

Rising demand for H-1B workers

Certified visa applications in district states

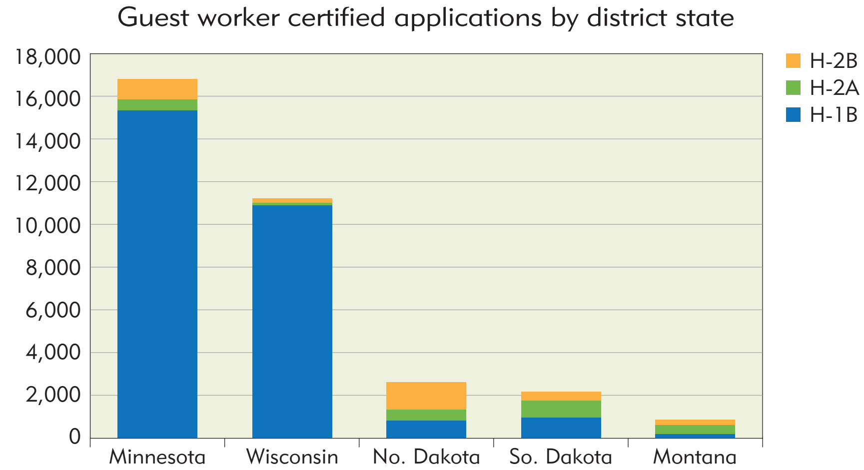


Source: U.S. Department of Labor, Office of Foreign Labor Certification

Chart 7

H-2B or not H-2B

Guest worker certified applications by district state



Source: U.S. Department of Labor, Office of Foreign Labor Certification

The uninvited

Unauthorized workers are the hidden face of immigrant labor. Despite decades of enforcement efforts by immigration authorities, undocumented workers continue to find jobs in the district. Most, including temporary workers and tourists who overstay their visas, work in low-wage industries such as farming, food service and child care.

However, the undocumented—a political flashpoint in Washington, D.C., and southern border states such as California and Arizona—make up a relatively small share of the foreign-born and total workforce in district states. A 2011 report by the Pew Hispanic Center in Washington estimated that there were 60,000 unauthorized immigrants working in Minnesota and 65,000 in Wisconsin.

Those are sizable numbers, but to put them in perspective, the estimate for Minnesota represents 18 percent of the foreign workforce and just 2 percent of the overall workforce. In comparison, Pew estimated that unauthorized workers accounted for 9 percent of the overall workforce in Texas and 10 percent in Nevada.

Other district states had fewer than 10,000 undocumented workers each—less than 1.5 percent of the total workforce in 2011.

Many unauthorized workers carry fraudulent papers indicating that they're permanent residents or U.S. citizens. The Senate immigration bill would require all employers to verify workers' credentials through a federal online database, making it harder for unauthorized workers to keep their jobs.

—Phil Davies

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fewer H-2A and H-2B applications than H-1B requests, but in Montana and the Dakotas the lower-wage visas account for a greater proportion of total guest worker certifications (see Chart 7 on page 7).

The energy boom in western North Dakota and eastern Montana has spurred demand for guest workers to fill positions in construction, food processing, hospitality and other industries—not just in the oil patch but also in surrounding areas that have seen an exodus of workers seeking higher wages in the oilfields.

Employment USA, a guest worker recruiting agency in Aberdeen, S.D., has capitalized on that demand. The firm lost business nationwide during the recession, but since 2010, revenues have increased over 40 percent annually on the strength of placements in the Dakotas. Employers unable to compete with high wages in oil-producing areas have turned to foreign temporary workers to fill out payrolls, said owner Kevin Opp.

"The oil boom is affecting the job market in the entire region. … People can go [to the oil patch] and without a ton of experience make $75,000 to $80,000 a year working just as hard as if they had a cement construction job here in Aberdeen."

About 1,000 workers recruited by Employment USA from Mexico, Canada, South Africa and several nations in the Caribbean and Eastern Europe work in the Dakotas on either the H-2A or H-2B program. Typical jobs include farm labor, basic construction, meat processing and waiting tables—"pretty simple work that doesn't take a lot of experience," Opp said.

The allure of oil country has further strained labor supplies in the Black Hills of South Dakota, where demand for workers in hotels, restaurants, resorts, amusement parks and other businesses peaks during the summer tourist season.

The Powder House Lodge and Resort near Keystone, S.D., hired its first H-2B workers through Employment USA in 2005. Ben Brink, one of the owners of the small, family-run resort, said hiring workers each summer was difficult because of the area's low unemployment and small pool of high school seniors and college students.

"We were just having staffing problems, and [hiring foreign workers] was a solution that was readily available to us," he said. "It has honestly saved our business." The resort hires 16 to 17 H-2B workers each season—about one-third of its full-time staff—to cook, serve food, clean rooms, maintain the grounds and staff the front desk. Most of the workers live onsite for the summer, paying $7.50 a day for accommodations.

Companies that hire lower-wage guest workers—H-2Bs in South Dakota earned about $8.50 per hour in 2011, according to the DOL—don't face the same supply constraints as those using the H-1B program. There is no national cap for H-2A visas, and since 2008, H-2B issuances have not exceeded the statutory cap.

But as is the case for the H-1B program, hiring foreign workers through these programs can tax employers' patience and pocketbooks. In addition to paying filing fees and commissions to recruiting agencies, firms often have to arrange for or provide housing for workers. And in 2009, the DOL began requiring H-2B employers to pay workers' transportation expenses from their home countries—adding hundreds of dollars in airfare to the cost of hiring workers from overseas.

Government red tape has at times disrupted the flow of guest workers. Earlier this year, U.S. Citizenship and Immigration Services suspended processing of H-2B petitions because of a court challenge to the method used by the DOL to determine the prevailing wage to be paid to workers. Opp said the month-long suspension came during the critical sign-up period for the summer season, reducing the number of H-2B workers available to employers.

Got cows to milk?

A large proportion of foreign workers who have come to district states in recent years are neither refugees nor guest workers. Many are legal immigrants or permanent residents admitted because they're relatives of U.S. citizens or permanent residents. The federal government grants a much smaller number permanent residency (making them eligible for U.S. citizenship) because they possess coveted expertise or work skills. And some are undocumented workers (see "The uninvited" above) from Mexico and other countries.

Just how many new foreign workers in each category are in the district labor force at any given time is unknown; their movements and employment status are not tracked by any government agency. But there's anecdotal evidence that they contribute in important ways to the labor supply of the region.

Responding to unrelenting demand for labor in western North Dakota, foreign workers from all over the country have come to the region in recent years, seeking jobs in oil drilling, construction, food service and other industries. "We're seeing a large pool of folks across the board [migrate to the area], including the foreign-born," said Richard Rathge, the former state demographer for North Dakota.

Phil Davis, who heads North Dakota Job Service operations in the western half of the state, said the Bismarck and Williston offices are "seeing more foreign workers show up" and handling an increasing volume of telephone calls from Mexicans looking for work.

In Minnesota and in South Dakota, foreign-born Latinos who have migrated north from southern states such as Texas and Arizona work alongside refugees and the native-born in meat-packing plants. Last summer, Dakota Provisions employed about 50 workers born in Mexico and other Latin American countries, in addition to roughly double that number from the U.S. territory of Puerto Rico.

And dairy farmers in the Dakotas depend upon workers from Mexico and Central America to staff large operations with hundreds of cows. "Our dairy farm families are trying to hire locally, but nobody wants to work on a dairy farm," said Roger Scheibe, executive director of South Dakota Dairy Producers. "So what they end up doing is hiring immigrant workers, usually Latinos."

Scheibe estimates that 60 percent of the milk produced in the state comes from cows milked by foreign-born workers.

Foreign, and here to stay

The "melting pot"—the process of assimilation into the economic and cultural mainstream—is a great American tradition. Over time, as recent immigrants learn English and acquire new skills either in the classroom or on the job, their economic fortunes rise, and they stand out less from the background of the overall workforce.

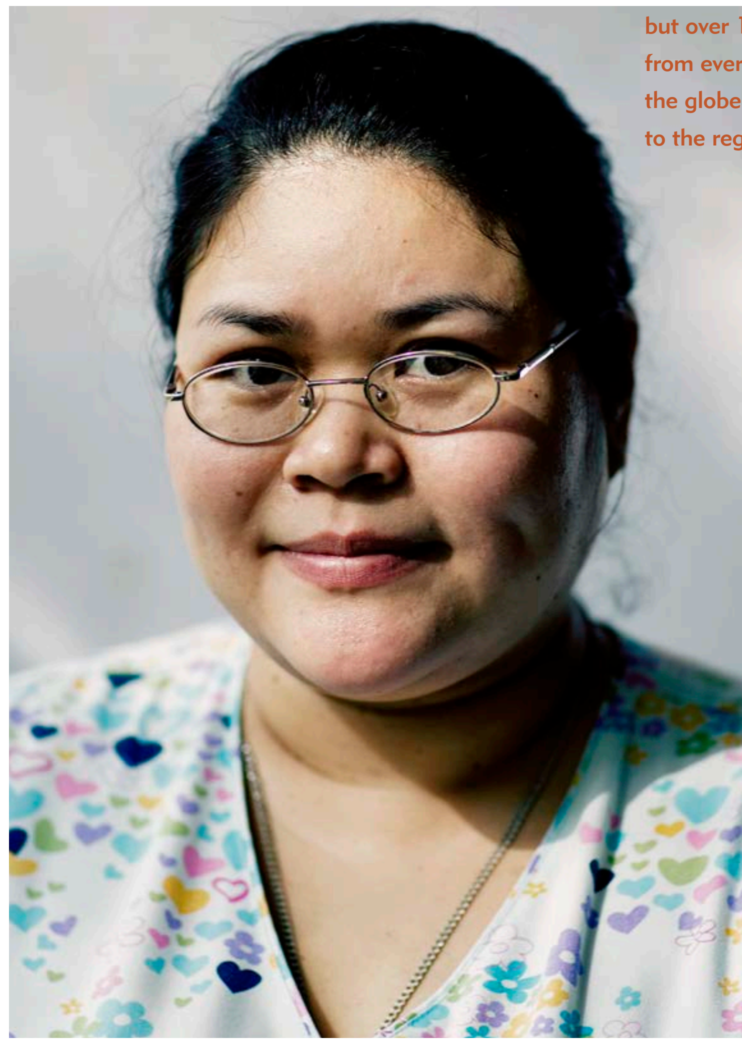
This melding is evident in the Census and wage data: Compared with recently arrived immigrants, the overall foreign workforce is less concentrated in lower-paying occupations such as food

Continued on page 11

Dairy farmers in the Dakotas depend upon workers from Mexico and Central America to staff large operations with hundreds of cows.

Ferman Pineda, a permanent U.S. resident born in El Salvador, works at Boadwine Dairy near Baltic, S.D.

Most of these recent arrivals come from Latin America, Asia and Africa, but over 100 countries from every corner of the globe export labor to the region.

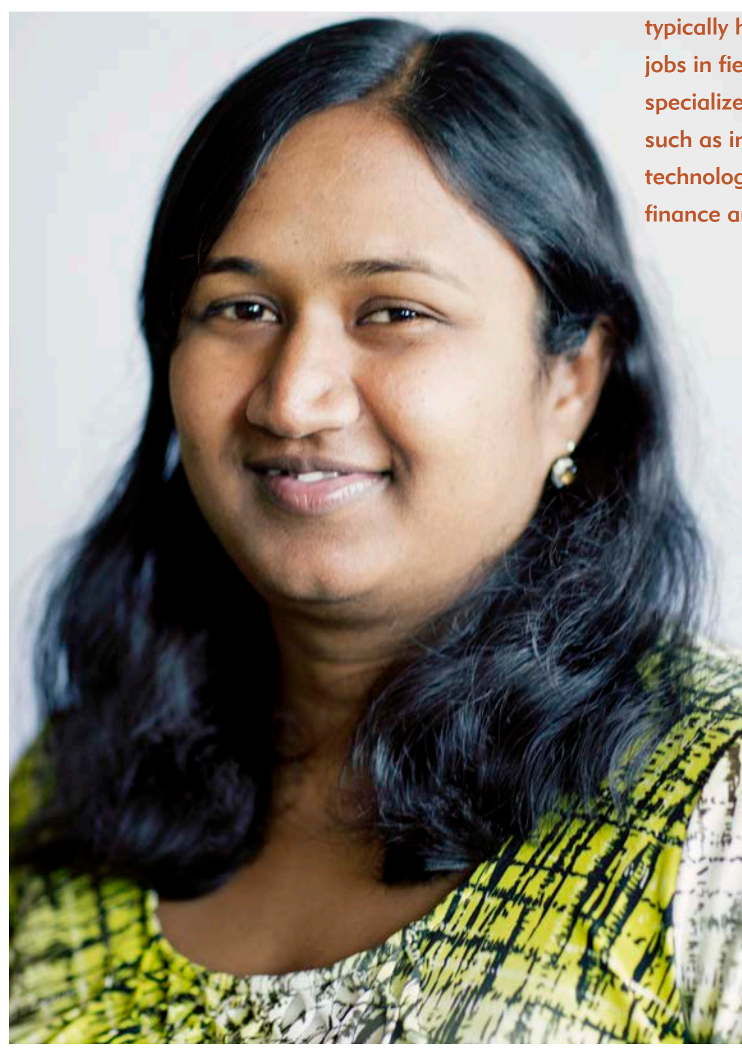


Krichaya Piamngam from Thailand is a nursing assistant at St. Therese at St. Odilia palliative care home in Shoreview, Minn.

Because an aging population is reducing the pool of available labor, immigrant workers, who on average are younger than U.S.-born workers, are well positioned to fill vacant positions during the economic recovery and for years to come.

Mexican-born Miguel Martinez is employed at the Boadwine Dairy near Baltic, S.D.

Workers with H-1Bs typically hold well-paying jobs in fields requiring specialized knowledge, such as information technology, health care, finance and academia.



Dr. Rekha Kallamadi, an H-1B visa holder from India, practices internal medicine at Sanford Health in Fargo, N.D.

Does foreign labor hurt U.S.-born workers?

Most economists believe that immigration has an overall salutary effect on the U.S. economy. An influx of labor from abroad increases the domestic workforce, allowing the economy to expand. Low-cost labor benefits consumers by keeping prices of many goods and services low. And gifted immigrants invent new products and found new businesses—think Sergey Brin of Google and Elon Musk of Tesla Motors.

The economic upsides of immigration are apparent in an analysis of the Senate immigration reform bill by the Congressional Budget Office. The July report found that enacting the bill would boost gross domestic product 3 percent and cut the federal budget deficit by $1 trillion over the next 20 years. Increased government revenues would come from a bigger labor force and additional tax receipts from current illegal immigrants.

But politicians and some economists also worry about potential downsides of immigration, including its impact on U.S.-born workers. One reason that Congress hasn't increased the number of visas and permanent resident "green cards" issued to foreign workers is the perception that immigration reduces the employment and wages of native workers.

Some labor market research has found that, indeed, immigration hurts U.S. workers. In a 2003 study, Harvard University economist George Borjas reported that increased immigration over the past two decades had "substantially worsened the labor market opportunities faced by many native workers," reducing the wage of the average U.S.-born worker by 3 percent and the pay of high school dropouts by 9 percent. A 2010 paper by Borjas and other economists found that a 10 percent rise in workers due to immigration reduced the employment of black men by 6 percent and resulted in higher rates of imprisonment.

Such outcomes make economic sense; given a certain level of demand for labor, increased supply intensifies competition for jobs and exerts downward pressure on earnings. "By keeping labor supply down, immigration policy tends to keep wages high," writes economist Paul Samuelson in his classic textbook *Economics*, commenting on restrictions on immigration in place until the mid-1960s.

But the case for immigrants taking jobs and earnings away from native workers isn't as clear cut as basic economic theory makes it seem. Other studies using different data and methods have found that U.S.-born workers suffer minimal fallout from immigration. "All in all, when you look all at the evidence pointing to a negative effect, it is not very substantial," said Magnus Lofstrom, an economist with the Public Policy Institute of California who has studied the labor market effects of immigration. Many researchers have found that low-skilled workers stand to lose the most from increased immigration, although even for this group the impact is quite small.

A 2011 study of U.S. states with different levels of immigration by Giovanni Peri of the University of California, Davis found that foreign-born labor had a negligible effect on the employment and wages of unskilled native workers. Highly educated workers saw their wages increase. Earlier studies by David Card of UC, Berkeley, Pia Orrenius of the Federal Reserve Bank of Dallas and other economists have shown that immigration reduces the wages of U.S.-born low-skilled workers by no more than 3 percent while having little impact on medium- and high-skilled native workers.

Substitute or supplement?

Why do these studies find a modest impact on native-born workers from immigration, in contrast to the more adverse effects identified by Borjas and other researchers? In large part, the immigrant effect on U.S.-born workers depends on the extent to which immigrant labor substitutes for the domestic variety. Many economists believe that, because the majority of immigrants have low skills, they don't compete for the types of jobs sought by most Americans. Instead, in the district and across the country, they work in low-wage industries such as agriculture, food processing and building maintenance.

It's likely that more native workers would vie for those positions if employers paid higher wages. But "it's quite clear that current wage levels are not sufficient to attract [U.S.-born] workers who are willing to do the work for a prolonged period of time," Lofstrom notes. Significant pay raises would entail structural upheaval in sectors such as agriculture, which relies on inexpensive labor to compete with imported food.

But what about elite foreign workers—computer programmers, engineers, financial analysts and others in the same industries and wage classes as many U.S.-born workers? Proposals to raise caps on guest worker visas have elicited concern about the impact of H-1B workers on native employment and wages. As in the broader debate over immigrant labor, experts beg to differ on the matter. Some see H-1B workers displacing their U.S.-born counterparts or depressing their pay; others find little impact on the high-skilled native workforce.

Much of the debate focuses on whether there is a shortage of U.S.-born workers in science, technology, engineering and math (STEM) fields, which account for roughly two-thirds of visa requests nationwide. If U.S. universities aren't producing enough STEM graduates to meet employer demand, foreigners with the requisite skills are supplementing the homegrown tech workforce, not supplanting it.

Some analyses of the high-tech labor market suggest that the STEM shortage is a myth. One study published earlier this year by the Economic Policy Institute (EPI), a Washington-based think tank, concluded that the country has "more than a sufficient supply of workers available to work in STEM occupations." Noting that average wages in information technology fields have stagnated or declined in recent years, the study implied that higher inflows of H-1B workers over the past decade have furnished U.S. firms with cheap labor, crowding out U.S.-born workers.

Other researchers contend that the STEM shortage is real, that H-1Bs are taking jobs that would otherwise go unfilled. The Brookings Institution, another Washington think tank, refuted EPI's conclusions in a May publication, finding that employers in large metro areas—including Minneapolis-St. Paul—struggle to fill vacant STEM positions. Lofstrom's research on the earnings of H-1B workers has shown that their wages are comparatively high, suggesting that firms hire them to "bring in skills and expertise that help the companies innovate and grow," not to save money on payroll, he said.

But he added that it's possible that the availability of H-1B workers has stunted the earnings growth of U.S. born workers in STEM occupations. And no one knows how native employment and wages would be affected if caps on H-1B visas and permanent resident "green cards" issued to foreign workers were raised, as called for by the Senate immigration bill.

The immigration surplus

The bottom line on immigration for U.S.-born workers? The weight of the evidence suggests that foreign-born labor poses a risk to low-skilled native workers and that some high-skilled workers—particularly those of lesser ability—have cause for concern. But for most U.S. workers the benefits of immigration outweigh the costs, because of the uplifting economic effects of foreign labor.

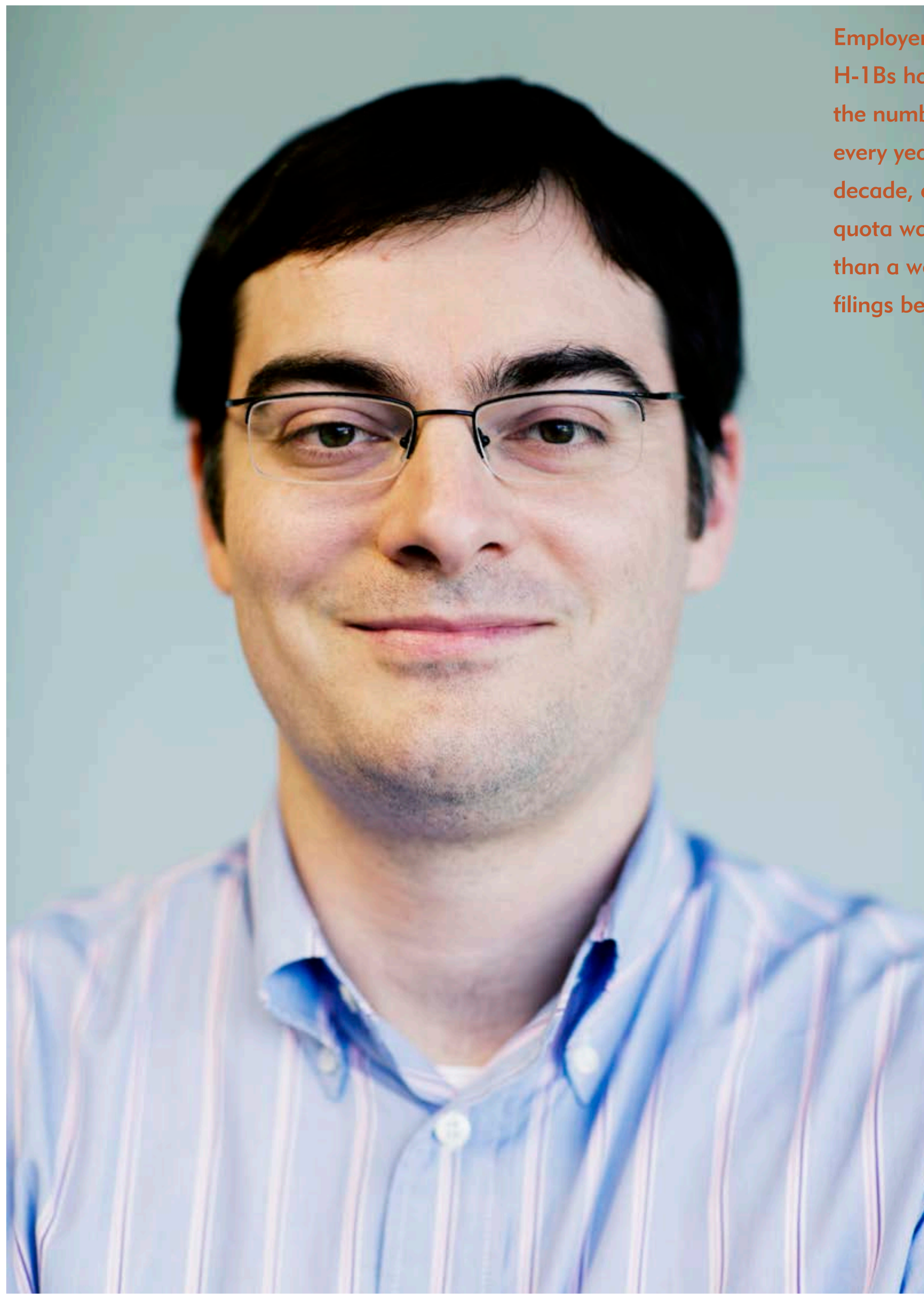
"We know that there are benefits from immigration that result in what we call the immigration surplus, which is an increase in standard of living for natives as a result of immigration," said Orrenius in an interview.

Inflows of foreign low-skilled workers allow increased specialization of labor, with immigrants assigned mainly to manual tasks and U.S. natives performing most jobs requiring proficiency in English. Specialization boosts production efficiency and output—one reason Peri found in his state study that immigration elevated the wages of highly skilled native workers.

Also, by lowering labor costs these inflows increase return on capital, attracting investment and giving businesses the wherewithal to expand and hire more personnel, including native-born workers commanding higher wages.

High-skilled foreign workers lend their talents to technological innovation, spurring job creation at all wage levels. And immigrants, just like people born and raised in the United States, are consumers who create jobs by increasing aggregate demand for goods and services.

—Phil Davies



Employer requests for H-1Bs have exceeded the number issued every year over the past decade, and this year's quota was filled in less than a week after filings began in April.

Felix Roth, an H-1B guest worker from Argentina, is a staff scientist at Sanford Health in Fargo, N.D.

Labor's changing face from page 8

preparation, farm labor and building maintenance. Consequently, as Chart 3 on page 4 shows, the median wage of all foreign workers hews closer to that of U.S.-born workers. In addition, immigrants who have lived in the United States at least five years are more likely to be employed.

Vocational training programs can put the foreign-born on the path to upward mobility. English, math and anatomy classes offered through the International Institute of Minnesota prepare refugees and other immigrants to pursue college degrees in nursing. Many students are nursing assistants who want to advance their health care careers and earn higher pay, said Amanda Smith, the refugee services director. "Since the college readiness program began in 2000, we've helped over 350 people become registered nurses, LPNs (licensed practical nurses) and other medical professionals."

Holders of H-1B visas who become permanent residents can switch employers and seek opportunities in other industries. At Altru Health System, based in Grand Forks, N.D., most of the H-1B physicians hired over the past three years have applied for green cards, said Joel Rotvold, executive physician recruiter for Altru.

Other foreign workers start businesses and become employers themselves; in Huron, a Karen refugee family has opened a grocery store. In 2010, the share of U.S. immigrants who started businesses was more than twice the entrepreneurship rate for the native-born, according to a report by the Small Business Administration.

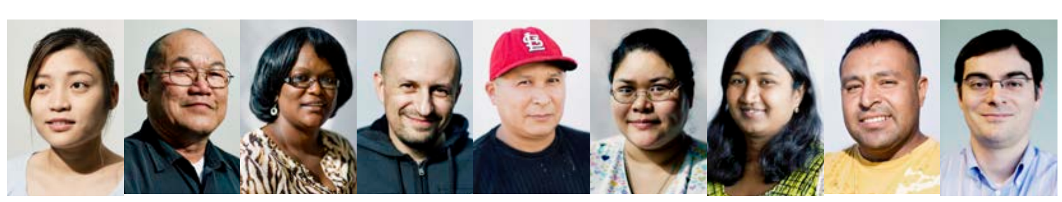
The growth trajectory of foreign labor in the district depends in part on how immigration reform pans out. Changes to immigration laws could quicken the inflow of some types of foreign workers while increasing the workforce participation of those already here. For example, in addition to raising the annual cap for new H-1B visas, the Senate immigration bill would make it easier for current H-1B workers to change employers and remove limits on green cards for foreigners who earn advanced STEM degrees at U.S. universities.

As for unauthorized workers, tougher border security may reduce the number of people who cross the Mexican border illegally and make their way north to the district. But granting unauthorized workers provisional legal status could increase the number who settle permanently and hold full-time jobs. "If those people that are somehow flying under the radar had a pathway to become legal, then they wouldn't have to hide from us," said Kent Alberty of Employment Edge.

Regardless of the outcome of Congress' deliberations on immigration, foreign workers appear destined to play a more important role in the district economy, because an aging population is reducing the pool of available labor. Immigrant workers, who on average are younger than U.S.-born workers, are well positioned to fill vacant positions during the economic recovery and for years to come.

"We expect that as our population ages in Minnesota, our labor force will grow at a slower rate than it has in past decades," Minnesota State Demographer Susan Brower said. "Most states are in the same boat as us with respect to aging. This means that we may need to continue to look to labor markets outside the U.S. for our workers." f

Research Assistant Bijie Ren contributed to this article.



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Saving for a rainy, oil-free day

State governments take in billions in oil and gas revenue every year. Should they be saving any? North Dakota says yes

RONALD A. WIRTZ
Editor

What would you do if you won a million-dollar lottery?

You might address some long-needed home improvements. You might buy a vehicle (hmm, his and hers?) and maybe lend a helping hand to family and friends because they know you've got the dough. It's probably not enough to retire on, so you'll have to keep bringing in a regular paycheck. But it's sure nice to have some financial breathing room.

The big question: How much will you save knowing—in your heart of hearts—that saving a healthy portion of that windfall is in your long-term interest? If you're like most, your intentions will be good, but your actions will fall short.

For state governments, striking oil is a bit like winning the lottery. It can mean untold millions, even billions, in new tax revenue. But the jackpot is not big enough or permanent enough for lawmakers to put on the revenue cruise control and relax, which creates a fiscal policy dilemma for energy-producing states.

Like real-life lottery winners, states use oil and gas tax revenue differently. Many use it for short-term purposes, enhancing general fund expenditures that would otherwise require public service cuts or higher taxes elsewhere in the economy. Some might have enough left over to pad their funds for a budgetary rainy day.

But when it comes to permanent, legacy-type savings, there's often little or nothing to save. "It's very difficult to put money aside in a political environment. And once there is, it's hard to keep it there," said Mark Haggerty, an economist with Headwaters Economics, of Bozeman, Mont., who has studied oil tax policy among the states.

North Dakota has decided to buck that trend—to be the lottery winner that saves more than others. Two years ago, the state took the unusual step among U.S. states of setting up a permanent trust fund—called the Legacy Fund—complete with a constitutional requirement that 30 percent of oil and gas severance taxes get socked away for the future. At fiscal year end this summer, the Legacy Fund had assets of about $1.2 billion, which puts it among the larger energy trusts in the country. The state also has another permanent trust fund, the Common Schools Trust, established more than a century ago and fairly low-profile until the oil boom lit a fire under it. Now it has twice the assets of the Legacy Fund.

No single approach to the harvest of oil and gas and its resulting tax revenue is necessarily the wisest. All things equal, a prudent approach toward the harvest of finite natural resources would likely include socking away something, maybe even a lot, for future generations. But all things are not equal among states, given their different natural resource bases, populations, demographics, public service demands and even political considerations that ultimately influence whether tax revenue is spent or saved.

North Dakota's approach to oil and gas revenue and its fiscal positioning for the future compares with few other states, including many that have reaped substantially larger oil and gas revenue over past decades. North Dakota's permanent trusts, particularly the Legacy Fund, are poised for robust growth thanks to ballooning contributions from rising energy taxes coupled with a mandate for long-term savings.

Outside the United States, North Dakota's trust fund approach also compares favorably with that of its neighbor government in Alberta, Canada. While it's not in the same asset class as Norway's renowned oil and gas trust fund—the largest sovereign wealth fund in the world—the Legacy Fund nonetheless has similarities that bode well for building a sizable nest egg while North Dakota's energy boom plays out.

Permanent energy-based trust funds in major oil- and gas-producing states and Alberta, Can.

	Major oil producer (> 40 million barrels annually)	Major gas producer (> 1 trillion cubic feet annually)	Severance tax trust	Royalty income trust
Alaska	x	x	na	$45.4 billion
Arkansas		x	na	na
California	x		na	na
Colorado	x	x	na	$670 million
Kansas	x		na	na
Louisiana	x	x	na	$1.2 billion
New Mexico	x	x	$4.0 billion	$11.9 billion
North Dakota	x		$1.2 billion	$2.4 billion
Oklahoma	x	x	na	$2.1 billion
Pennsylvania		x	na	na
Texas	x	x	na	$28.2 billion; $13.9 billion
Wyoming	x	x	$6.3 billion	$2.9 billion
Alberta, Can.	x	x	na	$17.2 billion

All values from fiscal year 2013
na = not applicable
Sources: Production data from Energy Information Administration; trust information compiled by author based on information from state agency reports and the Alberta provincial government

Empty oil cans

Natural resource endowments are widely viewed as public assets, benefiting both current and future generations. For natural amenities like lakes, public benefit comes from their immediate use, but also from their preservation so that others might enjoy them years from now. For assets like timber and minerals, public benefit can also come through their sale, with tax proceeds used to fund public services. For nonrenewable resources like oil and gas, the thinking goes, a portion of revenue should be saved to benefit future residents. Enter the trust fund, which converts a hard asset in the ground into a long-term financial asset.

Permanent oil and gas trust funds are typically funded by one of two sources: One is a severance tax, which is levied when a resource is extracted (or severed) from the land. The other is royalties, which are paid to landowners (public and private) in exchange for the right to harvest resources from public and private land. Royalty income tends to be more modest than severance taxes because most energy production occurs on private rather than public lands. (The exception is Alaska. More on this later.)

A review of states with major energy production found only a handful of permanent trust funds (see table above). North Dakota is one of a few with two sizable trusts, one funded by severance taxes and one by royalties. A number of states have no notable energy trust fund to speak of despite a legacy of energy production. California has produced more than 9 billion barrels of oil since 1981 (third most among states) and more than 13 trillion cubic feet of natural gas (ninth most), yet has no trust fund because it levies no severance tax on energy production, and last year earned just $2 million in royalties from production on state lands.

Most states, however, take in significant revenue from energy production. The majority of it comes in the form of severance taxes—something on the order of $20 billion in 2012 alone. However, only three states dedicate significant amounts of severance tax to permanent trusts: New Mexico, North Dakota and Wyoming. The largest of these trusts is the Wyoming Permanent Mineral Trust Fund, with assets of more than $6 billion.

(Some fine print: Colorado devotes some severance tax to a perpetual trust whose assets are comparatively small and dedicated to revolving loans for water and other environmental projects. Alaska saves none of its severance tax—about $6 billion in 2012—but dedicates at least 25 percent of royalty and related income to a permanent, general-use fund.)

Two years ago, North Dakota established its own permanent trust, dubbed the Legacy Fund, and attached to it a constitutional mandate that it receive 30 percent of extraction and production taxes paid on oil and gas production. The fund topped $1 billion in April—after just 20 months—and is adding more than $80 million a month.

The Legacy Fund was created in part by a problem every state wishes it had: too much money. To understand, go back about a half dozen years. Oil and gas tax revenue was ramping up quickly and "no one had their hands around" what to do with the money, said Pam Sharp, director of the state Office of Management and Budget.

By 2008, political leaders and the public began talking more about the need to save some of this revenue for North Dakotans. In 2009, the state put to referendum a proposal to set aside 50 percent of all oil and tax revenue, but the measure was defeated by voters. "They thought it was too much [tax revenue] to set aside," said Sharp.

During this time, the state had a quasi-permanent trust fund—though mostly in name only. Called the Permanent Oil Tax Trust Fund, it amassed more than $1 billion and was set up as a long-term savings fund. But it had no spending restrictions, "so every year it got raided for special interest spending," said John Phillips, president of the North Dakota Economic Development Association (NDED).

A second statewide referendum took place in 2011 to set aside a smaller percentage (30 percent) of oil and gas severance taxes, which won by a wide margin because voters believed "if they didn't set it aside, the Legislature would spend it," said Sharp. The measure also put assets under lock and key, preventing lawmakers from spending anything until 2017, and only then with a two-thirds majority in both legislative chambers.

There is an element of serendipity to North Dakota's current fiscal state. The oil boom there is comparatively large in scale given the state's population. The state is also less dependent than other states on oil and gas taxes to fund ongoing government expenditures. But so too are there mounting challenges and costs at the local level related to oil and gas development (discussed at length in the July 2013 *fedgazette*).

"Given the challenges, I think we've done a pretty good job," said Sharp. "It's been really difficult to know [how to plan] when we're still not at the top of [oil revenue]."

John Walstad is a lawyer and code revisor with the North Dakota Legislative Council, involved in the drafting of laws related to oil and gas taxes. He said there was "significant legislative will to put a trust fund in place," and supporters of the fund "have a pretty typical North Dakota view ... that you don't spend your last dime for immediate gratification. You set aside something in good times so you can ride out the hard times. ... North Dakotans have never understood how you can spend money you don't have."

Now in place and growing rapidly, the Legacy Fund appears to be widely supported in the state; nary a local or state source contacted by the *fedgazette* opposed or criticized the fund aside from minor concerns about the relative percentage of the set-aside or curiosity about the fund's long-term objective, which has not yet been decided by lawmakers. In an informal *fedgazette* online poll with 55 responses from across the state, nearly four of five supported the Legacy Fund. However, two-thirds said they did not want the state to raise the percentage of tax revenue dedicated to the trust.

Ron Ness, president of the North Dakota Petroleum Association, said, "We were major supporters of the Legacy Fund. It's the right thing to do for future generations and to ensure the wells keep producing forever. I have been a major supporter and believe it's important for my three young children's future in North Dakota."

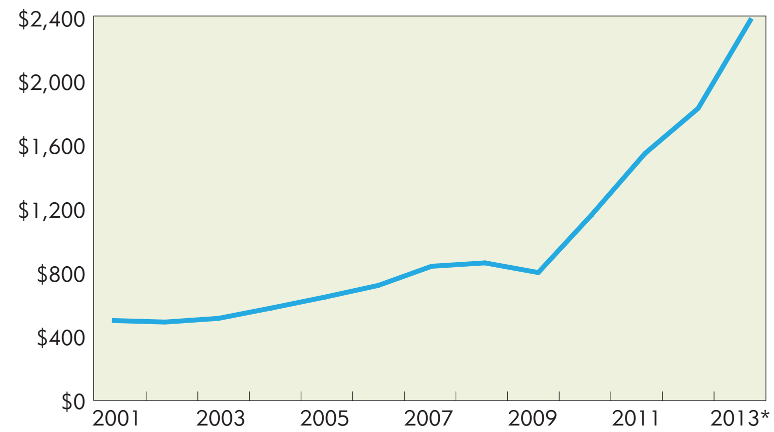
It doesn't hurt that the fund is piling up savings. The state projects the fund will reach $3 billion by the end of fiscal year 2015—and that might be conservative; the fund reached $1 billion this spring, far faster than earlier estimates. As of May, the state had also started seeking a better yield on the fund's assets, which had been invested in conservative fixed-income instruments returning less than 2 percent annually.

Sizable and automatic tax contributions, combined with higher investment returns, should help the Legacy Fund catch up to the nation's other two severance tax state trusts, both of which had a big head start but are receiving significantly smaller tax contributions than the Legacy Fund. Wyoming's Permanent Mineral Trust Fund was created in 1976 and receives about 40 percent of all oil, gas and coal severance tax revenue—about $350 million in fiscal year 2012 on severance taxes of almost $900 million. The fund is also required to distribute 5 percent of its five-year rolling market value to the state general fund—good for $215 million in 2012.

New Mexico's Severance Tax Permanent Fund was also started in 1976 and has $4 billion in assets. The state takes in more than $400 million in severance taxes, but much of it goes to pay off a state-based revolving loan fund used by local governments for bond financing. After meeting bond payment obligations, the remaining severance revenue is distributed to the permanent fund. In turn, the fund is required to distribute 4.7 percent of its assets to the general fund—$176 million in 2012. As a result, the fund's net growth comes from investment returns.

Chart 1

Common Schools Trust Fund assets
(millions, July of each year)



* As of August 2013
Source: North Dakota Legislative Council and North Dakota Department of Trust Lands

Royalties: Your oil highness

More states capitalize permanent trusts through royalties and related income like lease-bonus payments (see table). Most of these trust funds have been around since the mid to late 1800s, when the federal government granted millions of acres to 30 states, including every Ninth District state, with the express purpose of leveraging these lands and their natural endowments for the benefit of public education. Currently, only 20 state-based school trusts are still in existence from these land grants, according to Margaret Bird, director of Utah's School Children's Trust.

Again, North Dakota's Common Schools Trust fares well by comparison. It was established in 1889 when the federal government gifted several million acres of land to the state. Fortunately for North Dakota, about one-third of the state's remaining endowment of 2.5 million acres holds oil and gas deposits, which generated $350 million in royalties and other income for the school trust during the first 21 months of the 2011-13 biennium, according to figures from the state Department of Trust Lands.

But the state also has in place a formula that, depending on total receipts and allocations elsewhere, funnels some of the surging severance tax receipts to the Common Schools Trust. In the 2011-13 biennium, $192 million in severance tax revenue was allocated to the Common Schools Fund, according to state budget figures.

Combined with investment returns, these major contributions have had a powerful financial effect. It took the Common Schools Trust more than 100 years to reach $1 billion in assets, but just two years to earn the second billion (see Chart 1). The state expects the fund to reach almost $4 billion by the end of fiscal year 2015.

The trust allocates money to the state's K-12 school districts based on the average value of financial assets, and the fund's growth has filtered down in a big way. This year, school districts will receive $66 million from the fund, double the level from 2011.

Despite the steep ascent of assets in both of North Dakota's permanent trusts, a small handful of trusts in other states dwarf them both. Most of these trusts receive royalties from energy production on state lands. The state of Texas has two of the country's largest resource-based trusts, with combined assets of $42 billion. Each fund receives considerable oil and gas royalties as well as other income from public lands, totaling an estimated $1.2 billion in the most recent fiscal year, according to the state's biennial revenue estimate in January. Investment earnings from the funds support public K-12 and state higher education institutions, to the combined tune of $1.6 billion last year.

"Texas is pretty good at squirreling away money," said Paul Ballard, CEO and chief investment officer of the Texas Treasury Safekeeping Trust Co., which manages the two trust funds. The two trusts also have grown big through simple longevity, having been created in 1876, with a statewide oil boom only a few decades away at the turn of the century.

But if there is a trust celebrity in the room—at least among U.S. states—it's Alaska, whose Permanent Fund currently stands at about $45 billion, funded from royalties and related income from production on state lands. Unlike other trusts funded by royalties, Alaska's is not dedicated to the benefit of public education, in part because the state did not take part in the federal land grant program, given its late arrival as a state. That allows the fund to issue a direct payment annually (officially called a dividend) to every state resident.

Continued on page 14

Saving for a rainy day from page 13

Those checks have fluctuated of late, spiking as high as $2,000 per person in 2008 but declining last year to $878. Since the fund's inception in 1976, the state has returned $20 billion to residents.

Low expectations?

By mere asset size, Alaska and Texas are the cream of the U.S. crop of trust funds. But other metrics suggest that these and other producer states have little to show, given their respective legacies of energy production.

For example, since 1981, Louisiana has produced 4 billion barrels of oil (fourth most in the country) and 113 trillion cubic feet of gas (second only to Texas). Over this period, the state has taken in $33 billion in tax revenue, according to data from the state Department of Natural Resources. Its lone trust fund, the Louisiana Education Quality Trust Fund, has only $1.2 billion in assets.

The Lone Star State might have $42 billion in trust funds, but it's also the elephant of U.S. oil production. Its current production leads second place North Dakota by a factor of three; since 1981 it has been the largest producer of both oil and gas by a wide margin, and that ignores significant earlier production not tracked by the U.S. Energy Information Administration. Against that backdrop, the state's trust funds look a little less robust when measured on a population or energy production basis, falling to middle of the pack among major producing states (see Charts 2-4; the province of Alberta and Norway are also included in the trust analysis and discussed later in this article).

On a population basis, Alaska appears to be the fat cat of state energy trusts, with trust fund savings of about $62,000 per resident. But on a production basis, its savings rate looks much more modest. While Alaska stuffs as much as one-third of royalties and related income into its trust fund (good for about $900 million in 2012), the state also earned $6.2 billion that fiscal year in additional severance and other taxes. All of it went to the state's general fund.

Alaska's heavy use of energy revenue for general fund expenditures rather than future savings is not necessarily "bad" per se; as a legislated matter, lawmakers (and the voters who empower them) have preferred immediate public services to future ones. Neither is the state's habit of paying dividends to state residents from its trust fund necessarily imprudent. Such a judgment depends on a comparison of the private use of these dividends with the likely alternative if funds were left in the trust. Both matters are outside the scope of this article.

But the trust's celebrity status may be in jeopardy. Alaska currently gets up to 90 percent of its general fund from volatile oil and gas revenue. But production has been falling for decades, with government revenue propped up by high oil prices and the highest severance tax rates in the country. The trust fund is nowhere near the size necessary to replace annual oil and gas revenue should production continue to drop, as expected, or if oil prices fall significantly. Dividends to residents typically exceed annual royalty contributions, so the fund already depends on investment returns for growth.

Then this spring, the state Legislature overturned its existing tax structure, changing its severance tax rate and stripping out the tax progressivity (based on oil prices) that pushed per-barrel tax rates to almost 43 percent in 2012. The new rate—a flat 35 percent, with a $5 per barrel tax credit—is still exceptionally high compared with other states, but various incentives and exemptions are expected to cut effective tax rates to half that level in some cases. Estimates suggest the state will bring in $1 billion to $2 billion less in tax revenue—a big impact on a state budget with few other revenue sources.

The tax change is meant to encourage producers to explore and drill for more oil. "We're in a place where declining oil production isn't going away" unless new production is found elsewhere, said Nils Andreassen, executive director of Institute of the North, an Alaska think tank. Though the industry and state believe there is considerable oil yet to be found—offshore, in the North Slope and in unconventional shale oil—none has yet been uncorked. "These are long-term bets because they don't know what else to do," Andreassen said.

The state is now spending more than $7 billion annually, while a sustainable revenue stream given production trends is more along the lines of $5.5 billion, according to a January report from the University of Alaska-Anchorage.

"The state will have to face up to fiscal realities," said Andreassen. "The dividend is a time bomb. ... Given the [fiscal] situation 10 to 20 years out, it will have to stop" if the state has any hope of building a nest egg that can replace current oil and gas tax revenue in perpetuity.

Oil trust exports

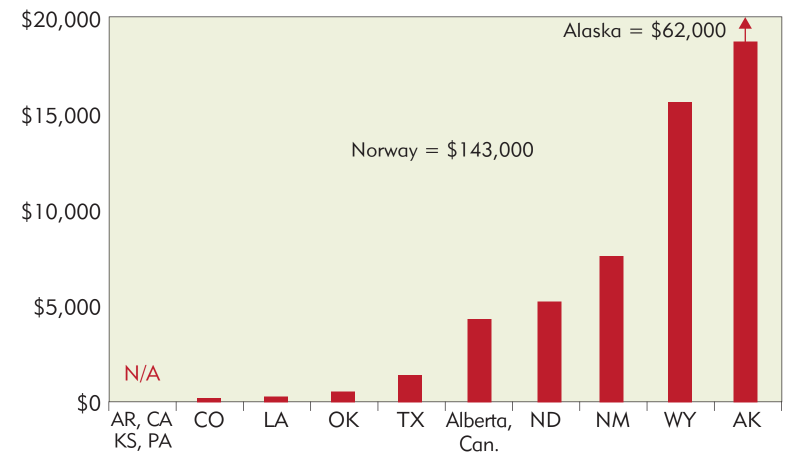
In this context, North Dakota is faring well among oil- and gas-producing states; it has the highest savings rate among U.S. states in terms of total, oil-equivalent production since 1981. Also favoring the state is the fact that those savings are likely to grow considerably if production and oil prices remain strong as expected.

To the north, the province of Alberta produces the large majority of Canadian oil, which helped create and capitalize the Alberta Heritage Savings Trust Fund, currently holding $17 billion in

Chart 2

Trust funds per capita

Major oil and/or gas producers

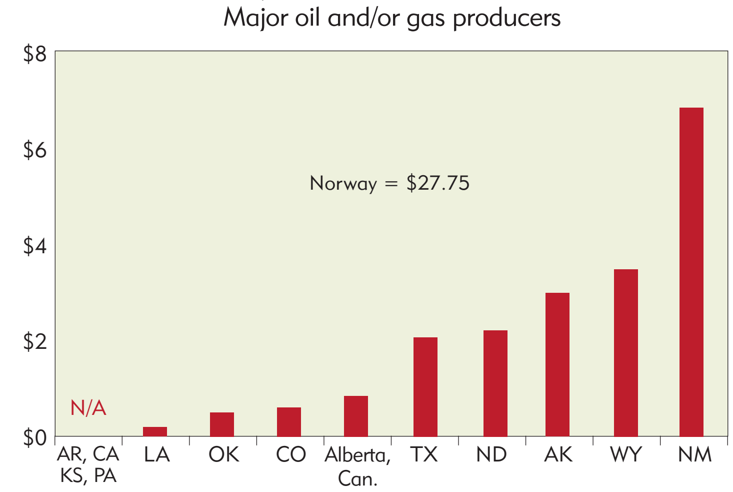


Source: Trust fund figures from state agencies, Alberta Treasury Board and Finance and Norges Bank Investment Management; production figures from the Energy Information Administration, Norwegian Petroleum Directorate, National Energy Board (Canada), and Canadian Association of Petroleum Producers

Chart 3

Trust funds per barrel of oil produced, 1981-2012

Major oil and/or gas producers

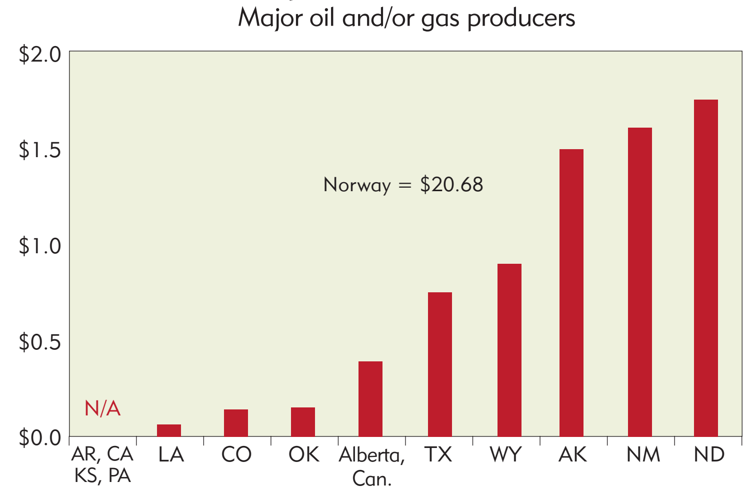


Source: Trust fund figures from state agencies, Alberta Treasury Board and Finance and Norges Bank Investment Management; production figures from the Energy Information Administration, Norwegian Petroleum Directorate, National Energy Board (Canada), and Canadian Association of Petroleum Producers

Chart 4

Trust funds per barrel of oil equivalent,* 1981-2012

Major oil and/or gas producers



* Includes natural gas production converted to barrels of oil equivalent

Source: Trust fund figures from state agencies, Alberta Treasury Board and Finance and Norges Bank Investment Management; production figures from the Energy Information Administration, Norwegian Petroleum Directorate, National Energy Board (Canada), and Canadian Association of Petroleum Producers

For state governments, striking oil is a bit like winning the lottery. It can mean untold millions, even billions, in new tax revenue. But the jackpot is not big enough or permanent enough for lawmakers to put on the revenue cruise control and relax, which creates a fiscal policy dilemma for energy-producing states.

assets. The provincial government holds about 80 percent of mineral rights, and the province produces about 2.3 million barrels of oil a day—about three-and-a-half times North Dakota's output. Much of it is bitumen, a heavy, sour crude from tar sands whose production has been increasing steadily. The government assesses no severance tax, but applies sliding-scale royalties of up to 40 percent, which brought in about $11.6 billion in fiscal year 2012, according to provincial statistics. However, none goes to the trust fund.

The Heritage Trust's circumstances have changed drastically since its founding in 1976. After seven years of steady contributions, the fund hit $11.4 billion. But subsequent contributions started to fade and went away entirely in 1988. The government also started appropriating the fund's investment earnings for general and capital expenditures; since the early 1980s, the fund has seen $33 billion in investment earnings transferred to the provincial general budget.

Heritage assets have grown modestly since then, but in real terms the fund's value is about 30 percent lower than three decades earlier—despite the fact that Alberta oil production has been rising steadily for more than 10 years. So regardless of having one of the larger energy trust funds in North America, Alberta's rank on a production basis is much poorer (see Charts 2-4).

Alberta lawmakers had a change of heart this spring, announcing a new fiscal framework that legislates more savings "and sets Alberta on the path towards less reliance" on oil and gas taxes, according to a press release. Among other things, the fund will retain all investment income starting in 2016. Assuming normal market returns, this "responsible savings strategy, the first in over 25 years" is projected to push the Heritage Fund's asset values to more than $24 billion in just three years, according to the fund's latest annual report.

Norway, and everybody else

Any serious policy talk about permanent oil trusts, especially outside the Middle East, eventually leads to one country: Norway, the rainmaker of oil trusts. Although its model differs fundamentally from that of any U.S. state, Norway nonetheless exemplifies the adage of saving early and often.

Major oil deposits were discovered in the continental shelf of the Norwegian Sea in the late 1960s, shortly after the national government had claimed sovereignty over it. Oil production started in the 1970s, with the country determined to develop the resource at a pace that would not overwhelm the national economy while generating public funds in perpetuity.

Over the next two decades, the means of production evolved from initial investment by foreign producers to the creation of the state-owned company Statoil in the 1970s to the formation of a separate organization (State's Direct Financial Interest, or SDFI) in the mid-1980s to issue production licenses to private producers. Licensing created the incentive for investment that followed.

Rather than holding auctions for licenses, or collecting royalties on production, the SDFI claimed a minority ownership stake in every subsequent development project as a condition of issuing a production license. This made the government an early-stage investment partner with private firms active on the shelf—currently about 50, according to an annual report by the Norwegian Petroleum Directorate—sharing both the risk in every drilling pad erected and the reward for every barrel produced.

This arrangement also required the government to develop the technical and human resources to successfully manage its partnership investments and gave the country an incentive to streamline the time-consuming process of permitting and development. All of these factors have lowered the investment risk for private firms, said an official with the Norwegian embassy in Washington D.C., who asked not to be named.

At the same time, the country hasn't forsaken its regulatory and environmental responsibilities. Norway has never allowed the flaring of natural gas (commonplace in North Dakota) despite the fact that all-offshore production makes its collection and marketing an expensive proposition. The country was also one of the first to levy a carbon tax (in 1992) on domestic oil and gas production; the tax was raised again last year, almost doubling to $70 per ton of CO_2.

Finally, the Norwegian government takes one of the largest energy tax bites of any country, at 78 percent of net earnings (after factoring in production costs).

This tiered-revenue strategy has paid off handsomely for Norway. The country collected $60 billion in revenue in 2011 (the most recent year available)—$36 billion in taxes, $21 billion from its ownership stakes via SDFI and $3 billion in dividends as a minority owner in Statoil, which the state spun off in 2001.

But here is the major Norwegian twist: None of this money flows directly to the national government. Rather, it goes to the Government Pension Fund Global (GPFG), the country's permanent oil trust, created in 1990. With assets of $722 billion as of July, it is the world's largest sovereign wealth fund, benefiting a country with just 5 million people (the population of Minnesota) that currently produces less oil per day than Texas.

The national government receives annual revenue from the fund equal to 4 percent of (smoothed) assets, no more and no less, so lawmakers aren't tempted to politicize the assets and subsequent spending from the pension fund. This revenue, projected to be about $21 billion this year, makes up more than one-quarter of the national government's budget.

By funneling huge revenue to the GPFG, the country has what U.S. states and most other oil-producing countries only talk about creating: A trust fund with enough wealth to reliably sustain government revenue once the oil has run out. Though production has declined rather precipitously of late, from 3.4 million barrels a day in 2001 to about 1.9 million in 2012, the country nonetheless believes it has sufficient reserves for at least two or three more decades of oil and gas production. With annual distributions only a small fraction of assets, investment returns should be able to protect the fund's assets over time with a little to spare even without a contributing energy sector.

The way forward

Domestic sources widely view the Norway model as politically unrealistic for U.S. states.

"There is a clear benefit for states and communities from sharing" current revenue with future generations," said Haggerty, from Headwaters Economics. "But I don't think states are willing to entertain that [Norway] model. ...I don't see a path to that. We're going the opposite direction."

In most states, Haggerty noted, "there are very different cultural and political circumstances" compared with Norway. For starters, Norway owns all oil-producing lands, and oil is considered a public resource. "In the U.S., the private sector is believed to be the best source to extract" that resource.

But he added that North Dakota shares some traits with Norway, like a small and homogeneous population, a predilection to save and even some unique political-economy ways of doing things differently, such as state ownership of the Bank of North Dakota, a unique arrangement in the U.S. "North Dakota is different from Texas and a lot of places," Haggerty said.

The state has put in place the mechanisms necessary to save substantial amounts of oil and gas revenue for the benefit of future generations. What the state will do with its Legacy Fund over the long term is mostly guesswork. Lawmakers cannot begin to tap its assets until at least 2017, and then only with two-thirds majority approval in both chambers. Sources suggested a wide variety of possibilities, from establishing a college scholarship fund to directing a steady stream of revenue to the general fund. Sharp, from the OMB, said some residents favor an Alaska-style fund that is allowed to grow big enough to generate annual stipends for state residents. "We get that a lot—'be like Alaska so everyone gets a check.' It's popular with some."

But most sources said there hasn't been much thought given to how to spend the trust money because of the urgency of dealing with the immediate effects of the oil boom. "I don't hear a lot of people talking about it. It doesn't go beyond, 'Hey, look, there's a billion dollars in the Legacy Fund," said Phillips, the head of NDED. "People are really focused on what's happening now" in oil patch communities.

Walstad, from the state's Legislative Council, agreed. With access to funds still several years away, "there has not been much action, but [some] stirrings have developed about what to do when 2017 comes around."

Keith Lund, vice president of the Grand Forks Region Economic Development Corp., sees "real opportunity" in the Legacy Fund. "I like to think we'll invest that" in something significant and strategic, whether it be long-term general funding, or support for higher education, he said.

Lund said some fear that there could be a statewide initiative in 2017 to send the savings back to taxpayers, "where everyone gets a check for $20,000. Who's going to vote against that? Seems like a good idea at the time, but you later wish you hadn't done that," Lund said. "I'd like a check, but I hope we don't do that. But we haven't had those conversations yet." f

Oil production and economic activity strong, but easing slightly

Oil and gas production continues to rise in the Bakken and Three Forks formations, but the rapid pace of growth has been easing during recent months—from torrid to simply fast.

Oil production in this region climbed to 24 million barrels during April, or 11 percent of U.S. production (see related charts and data online at mineapolisfed.org). However, the number of oil rigs drilling wells in North Dakota has leveled off at an average of 176 from November 2012 through June 2013 after reaching a peak of over 200 in June 2012. Meanwhile, the average number of active drilling rigs in Montana dropped to 10 in June after reaching a peak of 25 in October.

Oil production has continued to grow among the four largest producing counties (North Dakota's McKenzie, Mountrail, Williams and Dunn), but the pace of growth has slowed relative to oil output in other counties. In April, oil production increased 26 percent over levels a year ago in these four counties, compared with a 51 percent increase among other producer counties in North Dakota. Consequently, oil production in these four counties declined from 84 percent of the state's oil production in November 2012 to 81 percent in April.

The brisk pace of growth in North Dakota's taxable sales and purchases slowed during first quarter 2013, dropping to a year-over-year increase of $86 million, or 1.6 percent, down from 9.7 percent year-over-year growth in fourth quarter 2012 (see Chart 1). Slower growth in taxable sales and purchases reflects the modest easing in the pace of economic activity in the Bakken area. In first quarter 2013, taxable sales and purchases in the mining and oil extraction industry decreased 7.3 percent from a year earlier, compared with a more than 100 percent year-over-year increase in first quarter 2012.

Bakken area employers added more than 15,000 jobs from May 2012 to May 2013, while employment in the rest of North Dakota and Montana remained relatively level (see related charts and data online).

The number of online job postings in June was up 11 percent from a year ago in the North Dakota Bakken counties, but down 9 percent in the rest of North Dakota (see Chart 2). In both cases, job posting growth seems to be leveling, especially compared with very strong growth rates from 2010 to 2012.

The largest share of job postings are in the transportation, construction and extraction industries (17 percent of total), followed by sales jobs (11 percent) and office administration jobs (11 percent). In terms of geographical spread, labor demand in the North Dakota part of the Bakken is concentrated in Williams and Stark counties, homes of Williston and Dickinson, respectively, with about 3,700 job postings (78 percent of the Bakken total).

Unemployment rates continued to edge downward, dropping to 1.7 percent in the Bakken area during May compared with 1.9 percent in May 2012. In the rest of Montana, the unemployment rate has been falling from post-recession highs to 5.8 percent. Meanwhile, in the rest of North Dakota, the unemployment rate has been roughly level over the past year, at 3.7 percent in May (see related charts and data online).

Slower growth in taxable sales and purchases reflects the modest easing in the pace of economic activity in the Bakken area. In first quarter 2013, taxable sales and purchases in the mining and oil extraction industry decreased 7.3 percent from a year earlier, compared with a more than 100 percent year-over-year increase in first quarter 2012.

Average weekly wages continue to rise in the Bakken counties (see related charts and data here). Average weekly wages grew a robust 9 percent in fourth quarter 2012 compared with a year earlier, but lower than the year-over-year 19 percent wage growth seen in fourth quarter 2011.

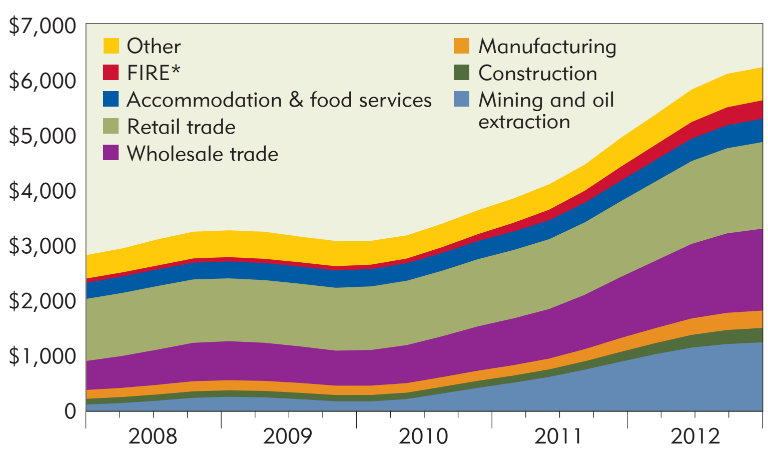
A similar trend can be observed in the number of business establishments in the last quarter of 2012, with Bakken counties posting a solid, but slowing, increase (see Chart 3).

—Rob Grunewald and Dulguun Batbold

Chart 1

Pace of growth slowing in North Dakota taxable sales and purchases

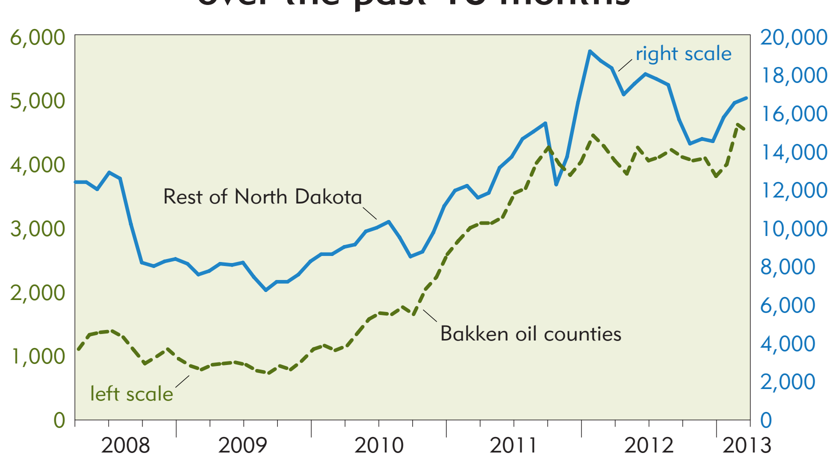
Millions of 2012 dollars



* Finance, insurance and real estate
Source: North Dakota Office of State Tax Commissioner

Chart 2

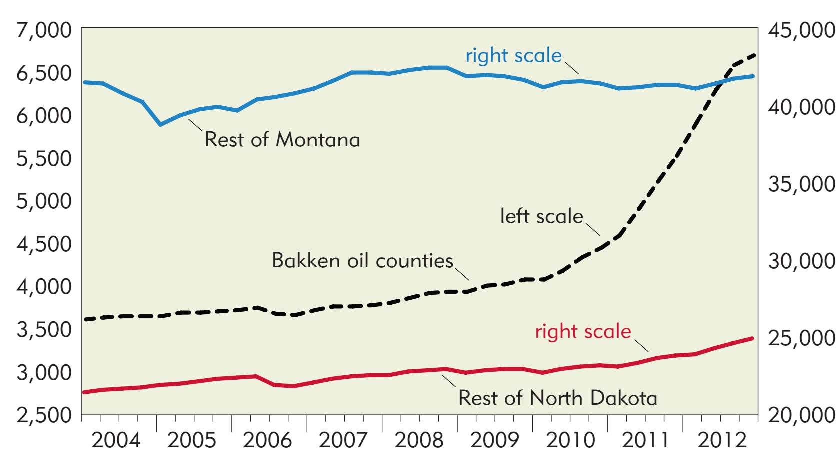
Bakken and North Dakota online job postings relatively level over the past 18 months



Source: Job Service North Dakota

Chart 3

Growth in business establishments ebbing



Source: U.S. Bureau of Labor Statistics, Quarterly Census of Employment and Wages

West-central Minnesota is manufacturing strong job growth

Chart 1

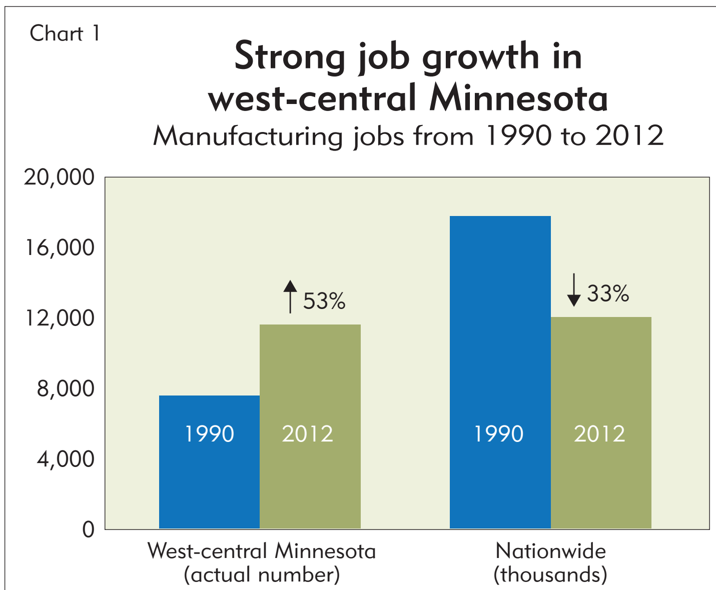
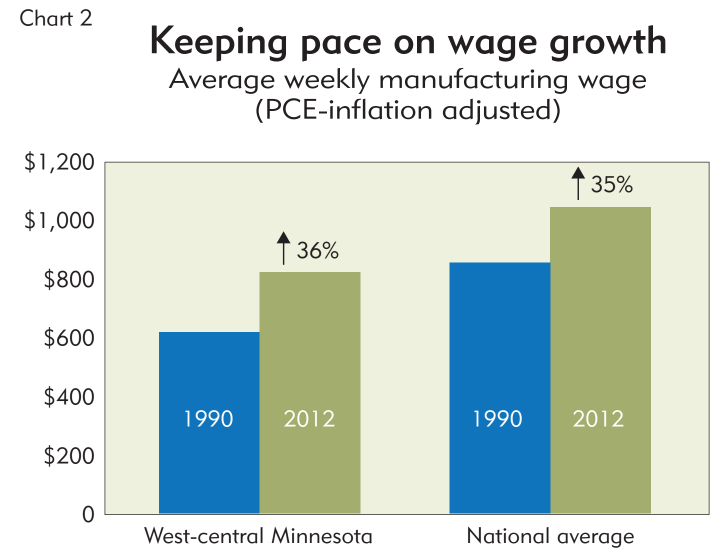


Chart 2



Source: Minnesota Deptartment of Employment and Economic Development, Bureau of Labor Statistics

While pundits and policymakers loudly mourn the general loss of manufacturing jobs, the west-central region of Minnesota has quietly enjoyed robust job growth in this sector.

From 1990 to 2012, the nation saw a continuation of the downward trend in manufacturing jobs. That trend was exacerbated by the Great Recession, which hit manufacturing states like Minnesota and Wisconsin hard. Minnesota has experienced a small uptick in manufacturing jobs in recent years, but not nearly enough to offset the losses just from the Great Recession.

But a nine-county region in west-central Minnesota—a federally designated economic development planning district bureaucratically referred to as Minnesota EDR4—has seen job growth above and beyond the recession's downturn. These nine counties (Becker, Clay, Douglas, Grant, Otter Tail, Pope, Stevens, Traverse and Wilkin) have seen their manufacturing job base increase by 53 percent from 1990 to 2012. That contrasts with a national decline of 33 percent over the same period (see Chart 1).

Much of that growth occurred during the 1990s; in Minnesota, manufacturing jobs grew by almost 60,000 during the decade, and the "R4" region similarly grew by about 2,500 jobs, hitting close to 10,000. But over the next decade-plus, Minnesota manufacturing saw a steady decline, shedding about 95,000 jobs—about one in four—by 2012. But the R4 region grew another 15 percent over the same period.

Wages have also grown in the region, though their performance is less compelling. Since 1990, average weekly (inflation-adjusted) manufacturing wages have grown by about 36 percent both nationwide and for the R4 region (see Chart 2). However, there remains a considerable gap in actual weekly pay in the region compared with the national average for manufacturing workers.

What makes for this island of good manufacturing activity? There are likely many reasons, including industry composition, available labor, transportation access and prevailing wage scales, which are lower in the region compared to the national average.

West Central Initiative (WCI), a nonprofit organization that provides financial support for worker training in the region, credits part of the success to intensive workforce development and training by employers. Regular surveys on business outcomes from employee training are conducted in the region by an independent firm and facilitated by Enterprise Minnesota, a manufacturing consulting organization and one of 59 federal Manufacturing Extension Partnership affiliates. These surveys suggest that training efforts often paid off for companies. Another recent study of labor turnover from 2006 to 2011, commissioned by WCI, also found that average labor turnover among regional firms participating in training programs was lower and statistically significant in 22 of 23 quarters studied. Sources in the region credit organic growth as well as growth from acquisition.

WCI identified about 30 companies with 100 or more employees in the region, and that size has allowed some to grow by acquisition.

"Growth accelerates with growth," according to Bill Martinson, a business development adviser with Enterprise Minnesota. "As companies get bigger, they accumulate more human and capital resources with which to do things. A big boost is the ability to do acquisitions. We didn't see acquisitions until the last few years." Martinson added that many of the companies are now supplying multinational corporations, "which makes them less susceptible to a weakened U.S. economy."

—Ronald A. Wirtz

District metros see strong growth

Metropolitan regions now account for more than 90 percent of the nation's gross domestic product (GDP), according to the Bureau of Economic Analysis. Given their economic and geographic diversity, metros offer a more detailed look at growth across states and the nation—one which shows that metros in the Ninth District are generally seeing faster growth.

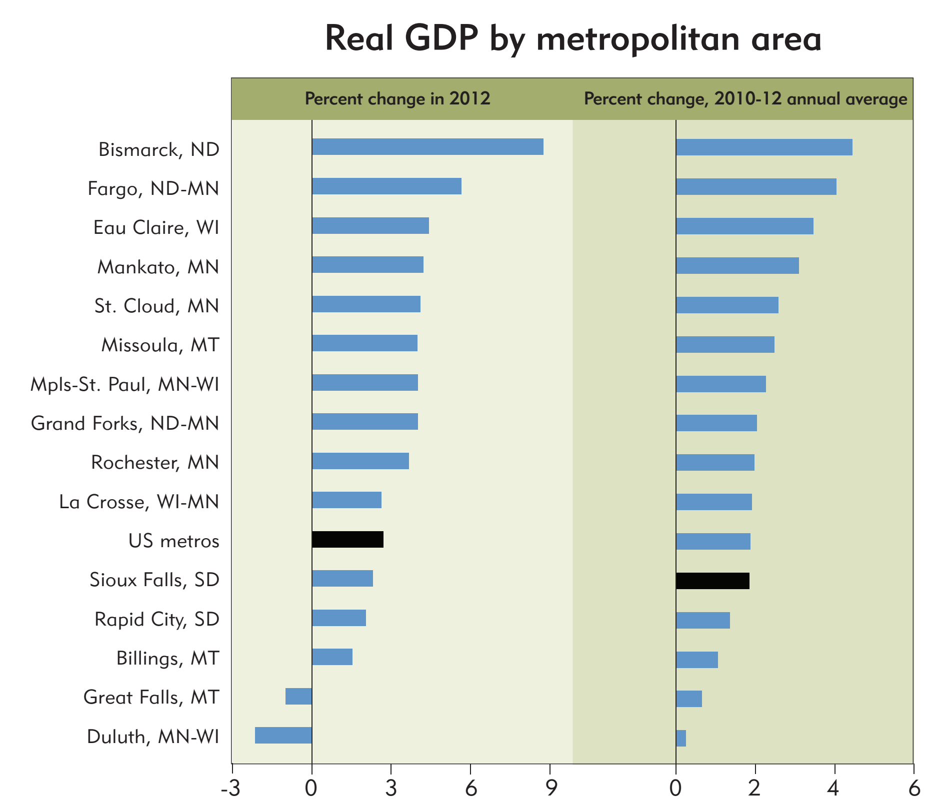
Nationwide, 305 of 383 metropolitan regions (80 percent) saw economic growth in 2012. In the Ninth District, 13 of 15 metros grew last year, or almost 87 percent, and two of three district metros beat the national average of 2.5 percent (see left chart). A large region encompassing much of the lower half of Minnesota—including the Twin Cities, St. Cloud, Rochester and Mankato metros—saw growth over 3 percent.

But as has become the norm, North Dakota metros were leading the metro pack, with Bismarck at the top at 8.5 percent growth last year, one of the top rates in the country. The region is seeing spillover effects from strong growth in the Bakken oil shale region to the west. Other shale regions are also seeing explosive growth; in the Eagle Ford oil shale region of Texas, the metros of Midland and Odessa both saw growth of 14 percent.

There were two district metros whose economies shrank last year: Duluth, Minn., and Great Falls, Mont. The source of contraction is hard to determine exactly. In the case of Duluth, the city and broader region experienced a major flood in June, which likely dampened economic activity, particularly tourism; the previous two years it had experienced annual growth near 3 percent.

Last year's growth among district metros continued a general trend in outperforming metros elsewhere. Over the previous three years, 11 of the district's 15 metros had faster annual growth than the national average (see right chart).

—Ronald A. Wirtz



Source: Bureau of Economic Analysis

Farmland still growing a bumper crop of dollars

It's not exactly news that farmland values are rising. Prices have been on a tear for a decade now, and have even been covered in the *fedgazette* Roundup before. But just when you think farmland prices can't go higher, they do, and price increases have been especially pronounced in the Ninth District.

According to an annual survey by the U.S. Department of Agriculture, the value of cropland nationwide increased 13 percent in 2013 from the previous year. The increase has been more dramatic around the district (see Chart 1). The USDA's findings were consistent with the Minneapolis Fed's most recent survey of ag lenders.

North and South Dakota saw the biggest increases among all states last year, at 42 percent and 30 percent, respectively. The big jump in North Dakota farmland prices is probably driven in part by the oil boom there. But price growth is primarily tied to high commodity prices and strong crop production as the Corn Belt pushes farther west.

Cash rents for cropland, which are directly connected to what can be produced on it, increased by 12 percent in each of the Dakotas and by 18 percent in Minnesota, compared with the 9 percent national average (see Chart 2). Average farmland prices are also lower in the Dakotas—about half the national average in South Dakota—so a dollar increase in these states also has a larger effect in percentage growth terms.

Nationwide, the value of farm real estate, including buildings and other land on farms, went up 9 percent. The slower pace of overall farm real estate growth compared to cropland suggests that crop production is a primary driver of price increases. In Wisconsin, where prices are near the national average and last summer's drought had a bigger impact, both prices and rents saw a much lower rate of increase.

There are whispers of a bubble in farmland values—a disconnect between the market price of land and its fundamental production value. So it's worth looking at the ratio of cropland prices to rents, a similar measure to the price/earnings ratios used for evaluating stocks (see Chart 3). Here the news is mixed.

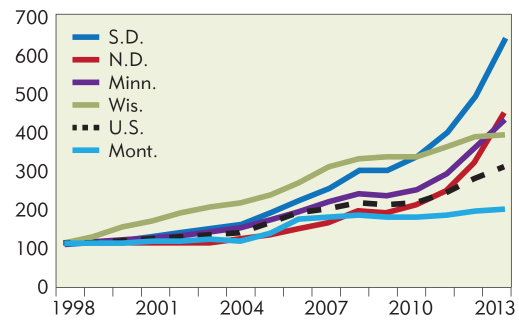
Price/rent ratios are elevated relative to their levels 10 and 15 years ago, but they've come down nationwide (and in a few district states) since their run-up prior to the Great Recession. However, there was only a short-lived lull in this ratio in Minnesota and especially the Dakotas. It will be interesting to watch what happens to farmland rents and prices if crop prices continue to fall, as they are currently predicted to do.

—Joe Mahon

Chart 1

Upward cropland price trend continues

(Index, 1998 = 100)

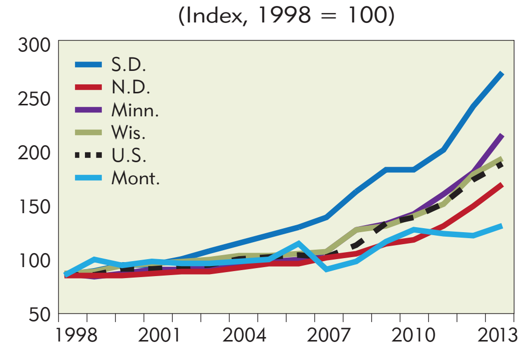


Source: U.S. Department of Agriculture, National Agricultural Statistics Service

Chart 2

Cash rents keep going up too

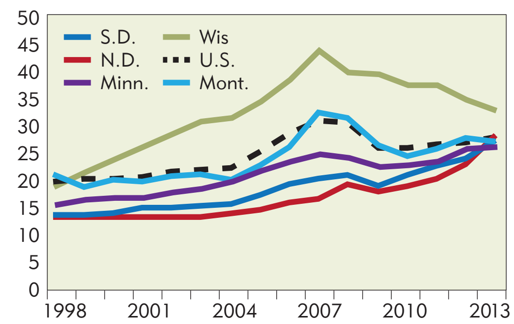
(Index, 1998 = 100)



Source: U.S. Department of Agriculture, National Agricultural Statistics Service

Chart 3

Price-to-rent ratios mostly remain below their peak



Source: U.S. Department of Agriculture, National Agricultural Statistics Service

Manufacturing outlook: U.S. catching up with Ninth District

It took all summer, but the nation's manufacturers appear to have finally caught the sector's good vibe already present for the better part of a year in three Ninth District states.

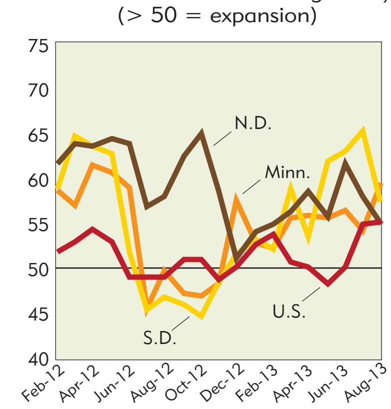
The Mid-America Business Conditions Index, put out monthly by Creighton University, shows that the overall outlook of manufacturers in district states where the poll is conducted continues to be upbeat, with Minnesota scoring the highest at 59 (above 50 indicates expansion, and below 50 indicates contraction). After declining steadily through the first half of the year, the overall U.S. score turned notably upward in July and August, ending at almost 56.

Employment sentiment has been more volatile, especially in the Dakotas, where the manufacturing base is comparatively small but reaping the benefits of strong state economies. U.S. employment sentiment has risen almost to the level of district states, which have declined of late, with all scores falling between 53 and 55.

—Ronald A. Wirtz

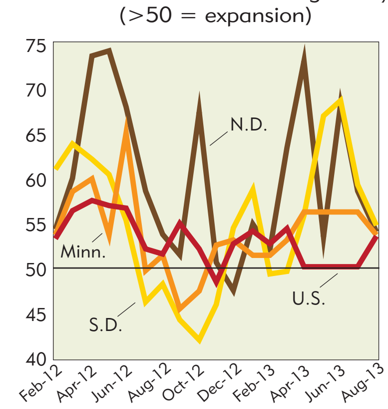
Overall index

Mid-America manufacturing survey (> 50 = expansion)



Employment index

Mid-America manufacturing survey (>50 = expansion)



Source: Mid-America Business Conditions Index

Newborn businesses crawling again, jobs not following in tow

It's well known that starting a business is tough. New data on establishments suggest that entrepreneurs are starting to regain their appetite for risk after getting scared to the sidelines during the recession and slow recovery.

According to figures from the U.S. Census Bureau, the annual number of establishments that are less than one year old has been slowly rising. While still not above prerecession levels across Ninth District states, all states saw positive growth in 2012; for most, it was the second consecutive year (see Chart 1). For North Dakota, it was the second straight year of record new establishments.

It's also well known that these young businesses are an important source of employment because young companies tend to be growing and thus require more labor compared with older companies (for those who need convincing, see the July 2011 *fedgazette*). Jobs have been rising at these young establishments, but the overall track record is a little less consistent and upbeat. For most district states, last year was the first real year of solid job growth (see Chart 2). These jobs declined last year in Wisconsin, its trend line zig-zagging since 2009 along with Minnesota's.

Annual job levels are still well below prerecession levels in four states. That's because average employment at these young establishments has been going down steadily. Minnesota's average employment has gone down by one and a half workers since 2007; Wisconsin and South Dakota saw a drop of almost one worker.

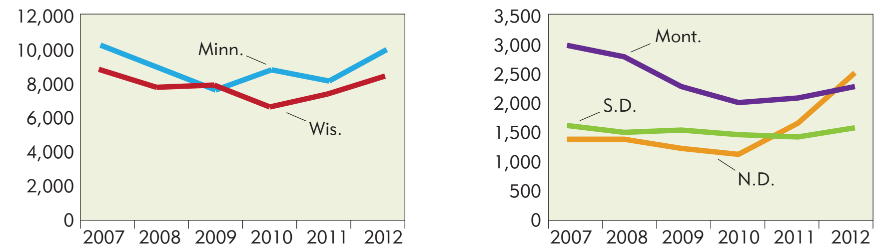
The exception to all the job trends is North Dakota, whose economy is the best in the country and comparable to almost no other state right now. Last year, both new establishments and total jobs at these businesses outstripped those of Montana, whose population is more than 40 percent larger. North Dakota even saw small growth in the average number of jobs per young establishment between 2007 and 2012.

—Ronald A. Wirtz

Chart 1

Coming of age? New establishments starting to rebound

Establishments < 1 year old

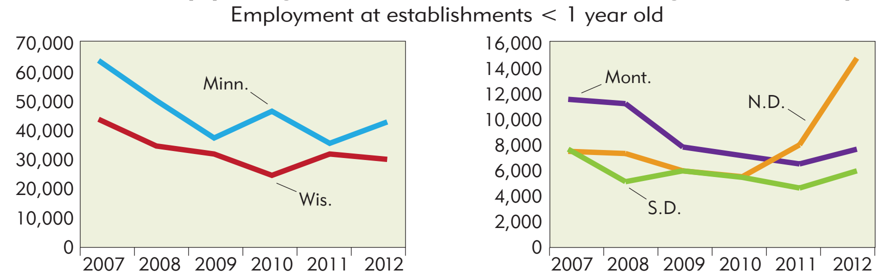


Source: U.S. Census, Business Employment Dynamics

Chart 2

Jobs at very young establishments rebounding more slowly

Employment at establishments < 1 year old



Source: U.S. Census, Business Employment Dynamics fedgazette

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Labor's changing face

October 2013

Foreign-Born as a Percentage of Labor Force, 2011

Source: U.S. Census, American Community Survey, Integrated Public Use Microdata Series (IPUMS-USA)