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Matchmaker, matchmaker

The staffing services industry has seen remarkable growth since the end of the recession. What does that mean for employers and workers going forward?

By RONALD A. WIRTZ
Editor

Gauher Mohammad vividly remembers the day he got his start in the staffing services industry.

It was Sept. 10, 2001, and Mohammad was the service manager of a local Doherty Staffing Solutions office in Owatonna, Minn., about an hour south of the Twin Cities in southeastern Minnesota. The industry had been seeing strong growth, and Mohammad was eager to be a part of that growth.

But a day later, terrorists hit the World Trade Center and everything changed, with orders for temporary workers grinding to a quick halt, said Mohammad. "I thought to myself, 'Why on earth did I take this job?'"

The answer would become clear over the next dozen years, though not without significant trials. Today, out of his Owatonna office, Mohammad oversees operations and service functions for the entire southern Minnesota market for Doherty. In this position, he's experienced the roller-coaster highs and lows of two recessions.

Continued on page 2

Juan Speilman, top, started with Award Staffing in April 2013. LaRea Eshelman, bottom, started with Award Staffing in December 2013. Both were photographed at The Bernard Group in Chaska, Minn.

PHOTOS BY STAN WALHAUSER

Temp workers have become a canary in the economic coal mine.

They are often the first employees cut when business gets tight.

Temporary employment from page 1

The Quick Take

Temporary jobs gained through staffing firms are growing at a fast pace coming out of the recession. The industry's share of total employment is nearing its historical peak and could grow well past this mark. But as unemployment drops, employers and industry sources are reporting tighter labor conditions and some evidence that workers are regaining some leverage over the temp jobs they are willing to accept.

Business rebounded after the 2001 recession, and the industry "lived the good life" through the middle part of the decade, only to see a crash again during the Great Recession, said Mohammad. But from the depths of recession, the industry has risen to new heights. "In the last three years, things have grown tremendously," he said.

Doherty has 16 offices throughout Minnesota and another eight offices located on the premises of regular Doherty clients. The staffing firm grew slowly at first coming out of the Great Recession—about 3 percent annually in 2010 and 2011, according to company figures. But 2012 saw 34 percent growth, and through October of 2013, business was up almost 18 percent. The company places about 3,400 workers a day with clients.

Growth has also been robust at other staffing agencies. Express Employment Professionals has staffing offices in every state in the country, including more than 50 in Ninth District states. From 2010 to 2012, Express nearly doubled the annual number of unique workers it placed with clients in district states, reaching almost 32,000, according to figures from Jim Johnson, an owner of three Express offices in the Twin Cities.

The drivers of this growth are myriad and evolving. The most basic source of expansion is employers' need for a flexible workforce "to add workers when demand for their goods and services is high" and cut back to a core staff when demand is lower, Johnson said. "This is a cost-efficient way to manage a workforce."

Uncertainty also plays a big role. Even as the economy grows, more employers are hiring temporary rather than full-time employees because they are not confident in the future economy, having been chastened by the worst recession in 75 years. Many sources also said that political controversies and federal fiscal policy have compounded that uncertainty.

The strong growth of recent years has pushed the industry near its historical employment peak, and most signs point to significantly more workers and employers using staffing services going forward, in part because both hirers and the hired have come to recognize the industry's matchmaking advantages.

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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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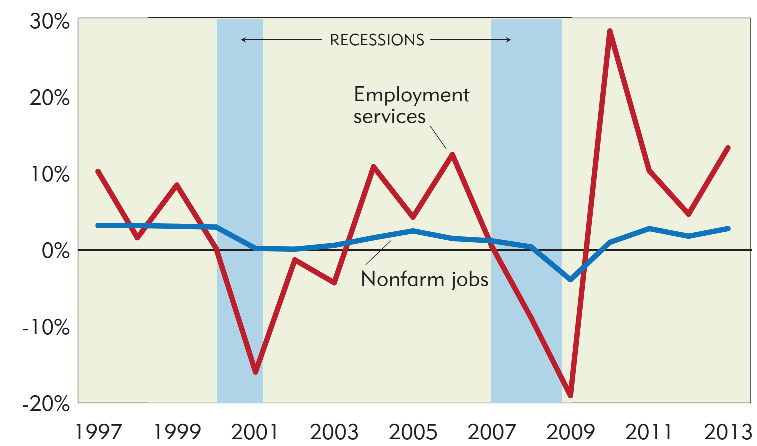
Chart 1

Sing loudly, canary

Annual percent change in Minnesota employment
Nonfarm vs. employment services*
(August of each year)



* Employment services includes temporary help services, professional employer organizations and employment placement and executive search categories. Temporary help services makes up more than 90 percent of this occupational classification in Minnesota.
Source: Bureau of Labor Statistics

Will work for three months

The staffing services industry has been around for decades. But its modern form started to take shape in the 1990s, when manufacturing saw a mild renaissance and introduced the concept of just-in-time production, which brought with it a need for just-in-time labor. The move also proved to be good public relations for manufacturers by allowing them to avoid negative publicity related to permanent layoffs when business sagged.

The industry continues to grow as more employers and industry sectors embrace the utility of temporary workers. "It used to be you'd have a Kelly girl in because you had a vacation" to cover, said Jon Osborne, vice president of research and editorial at Staffing Industry Analysts (SIA), located in Mountain View, Calif. Today, temps "are more integrated with the regular workforce. … They are not a side issue anymore. They are a central issue."

In the process, temp workers have become a canary in the economic coal mine, because temp workers are often the first employees cut when business gets tight. "We start to see changes in the economy about 18 months ahead" of the rest of the economy, said Roxie Loftesness, owner of AvailAbility, with offices in Sioux Falls and Brookings, S.D.

The industry decline started in 2006. By October 2008, in the midst of the collapse in the financial sector, "the door came down, like someone shut the lights out. You could just feel it," said Loftesness, who estimated that her hours booked (a standard industry metric) dropped by half.

Data show an employment trend seemingly in fast-forward mode. The staffing industry is considered not only pro-cyclical, but hyper-cyclical because temporary and contract jobs "are especially sensitive to the ebbs and flows of the economy," according to the American Staffing Association (ASA).

In terms of government data, temp jobs fall under the broader category of employment services, and temp jobs make up about 90 percent of this job category. Over the course of the 18-month Great Recession, staffing firms nationwide lost about 1.1 million jobs—or about one-third of their workforce.

In Minnesota, the sector has seen volatile job loss leading into recessions, followed by strong growth out of them. (See Chart 1. Also see sidebar on page 5 for a description and breakdown of the employment services sector and temporary job trends in Ninth District states. Due to a lack of more detailed industry data in some other Ninth District states, the majority of district-level trends will be profiled through Minnesota, which has the largest number of temp workers.)

Since the recession ended, the employment services sector has roared back, accounting for more than 17 per-

"Temps have no loyalty. You have to treat them well to keep them."

Employers "will have to pay more if the available workers prefer not to take those jobs."

cent of net employment gains nationwide. Among some district states, the effect has been even larger—19 percent in Minnesota, for example (see Chart 2). This for an industry with a tiny fraction of total jobs. Since the end of the recession, the share of jobs in employment services has grown from about 1.5 percent of total nonfarm employment to 2.5 percent.

The staffing services industry now sports about 3 million jobs nationwide—back to its 2006 peak—but that figure underestimates the industry's penetration because it represents average daily employment. For most industries, this count is roughly equal to annual employment. But the short-term nature of most temporary jobs means that many more workers cycle through the industry on a regular basis. Based on a count of W-2 forms, the ASA estimates that staffing firms hired 11.5 million temporary workers during 2012. That figure was expected to rise above 12 million in 2013.

Temporary drivers

Along with cyclical factors, there are some other, more circumstantial sources behind the growth of temporary employment since the recession.

Loftesness, from AvailAbility, said action (and inaction) by the federal government on things like budget and tax issues, health care insurance and the debt ceiling "have really caused a lot of uncertainty. You see businesses not take the steps you would have expected. … People say they can't move ahead like they would want."

Among these factors, most sources pointed to the Affordable Care Act as the uncertain elephant in the room. "Business still does not have any idea of the [ACA's] effect" on their business long term, Loftesness said. "Get the crystal ball out because no one knows where it's going to end up."

As a result, flexibility is a catchword for many employers dealing with nagging uncertainty. "Companies feel the need to be as flexible as possible," said Tim Doherty, CEO of Doherty Staffing Solutions. Companies "don't want to go out and add full-time employees given the possibility of having to go through the gut wrench of layoffs" if business tapers off in the future, Doherty said.

David Dietz, president and CEO of Preference Personnel in Fargo, N.D., pointed out that for many manufacturers, production is often seasonal and "most private sector employers are running leaner than prerecession, [and that] is contributing to this flexible workforce demand."

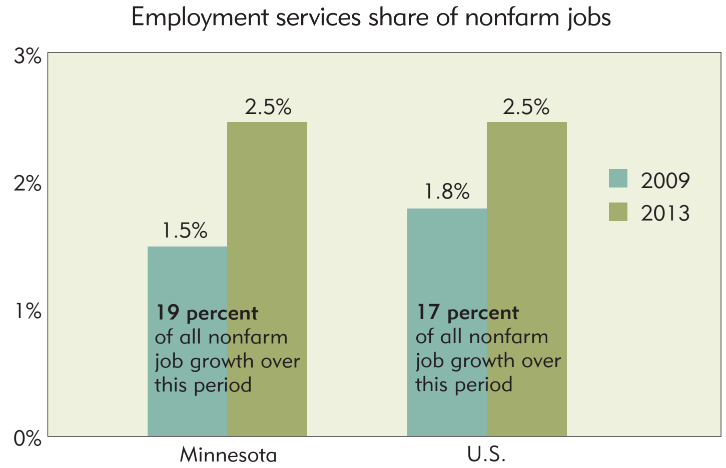
Truth Hardware is a manufacturer of hardware for windows and doors, and a Doherty client. About 90 percent of its labor force of roughly 625 is located in Owatonna. As a supplier to the U.S. and Canadian housing industries, the company sees "extreme seasonality. … We go

Continued on page 4

Chart 2

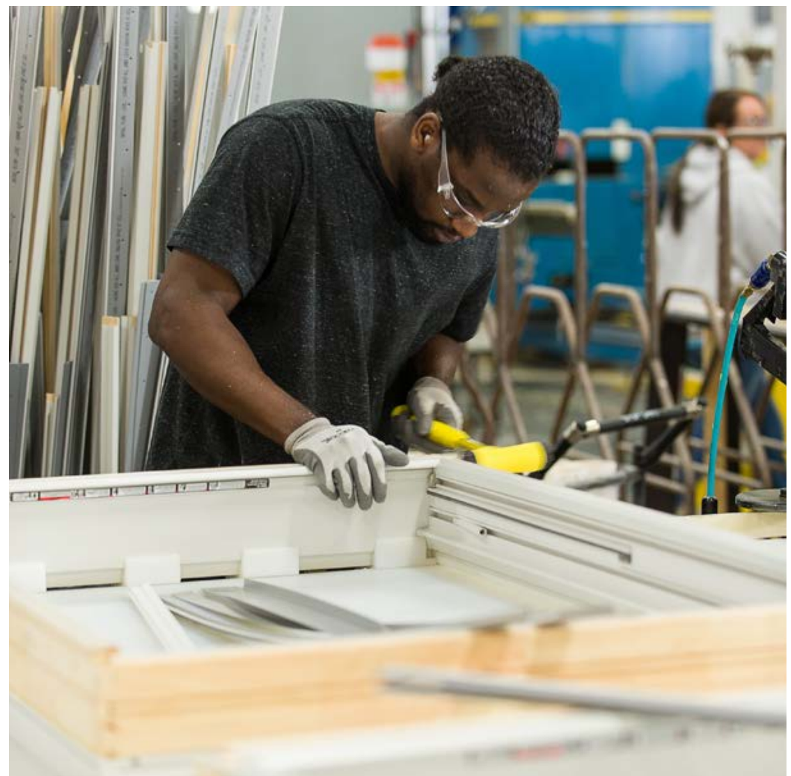
Small sector carries a big job stick

Employment services share of nonfarm jobs

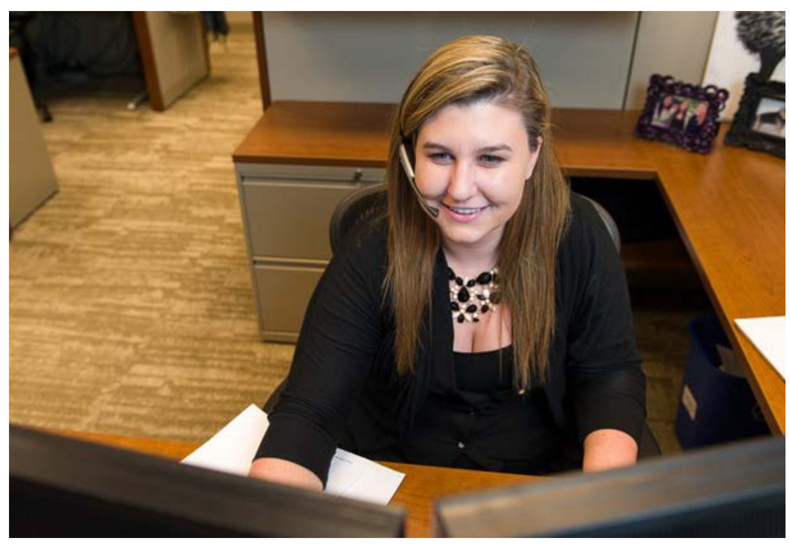


Source: Bureau of Labor Statistics

Employment services has typically made up about 2 percent of total nonfarm employment, fluctuating above and below that depending on the state of the economy and its proximity to recession. Coming out of the the Great Recession, this sector has had an outsized role in job growth.



Donald Nunley of Eagan, Minn., has been working for Express Employment Professionals at Renewal by Andersen in Cottage Grove, Minn., since October 2013.



Elizabeth Safeski of Edina, Minn., has been working for Express Employment Professionals at Eide Bailly in downtown Minneapolis since October 2013.

Raul Tornel has been with Award Staffing since January 2011. He is shown here at The Bernard Group in Chaska, Minn.

PHOTOS BY STAN WALHAUSER

Staffing agencies have long been involved in so-called temp-to-perm assignments.

Sources likened the process to "dating before marriage" or an "on-the-job interview."

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from X production to two times X," with peak demand in summer and early fall followed by "a precipitous decline," said CEO Jeff Graby.

The company has roughly 80 temp workers, but headcounts can rise as high as 110 and fall as low as 45 depending on orders. Temp workers perform "similar work to full-time workers," including both entry-level assembly and some skilled trade. Because of heavy seasonality, "it would be a tremendous challenge to manage [production], and temp workers currently are an important bridge to managing" seasonal variation, Graby said.

Many employers, especially those in manufacturing, follow an 80-20 or 90-10 rule: The bulk of an employer's labor force consists of full-time, permanent workers, and the remainder is temporary or "contingent." A September SIA survey of firms using contingent workers showed that the average share of such workers was 16 percent in 2012, a 1 point rise from a year earlier. The survey projected that the share would rise to 18 percent in 2014. Certain sectors are already much higher, like technology and telecomm industries (23 percent), according to the survey. It also found that "no category of buyer expects a decrease in the contingent proportion of their workforce. Buyers are generally bullish about hiring most types of labor."

Viracon, a manufacturer of architectural glass and other products, came somewhat late and reluctantly to temp staffing in 2008 after business plummeted with the recession. The company had to lay off hundreds of workers at three plants, including its largest in Owatonna, according to James Wendorff, company vice president of human resources.

The layoffs, Wendorff said, "were very difficult. It's expensive, emotional, painful and all that." When the time came to hire more line workers, "frankly, we were gun-shy. We were not confident" about hiring permanent employees and keeping them busy. So Viracon turned to Doherty for 50 temporary workers.

"Historically, as an HR person, I've not really bought into the [temp] model, but we thought we had no choice," said Wendorff. The company hired entry-level workers, mostly for materials handling, and "sprinkled" them into the company's production lines, which he acknowledged created some challenges. Glass handling and safety requires training, for example, which is more difficult when temp workers might not be there a month later. But, Wendorff said, "we've worked through issues without a hit to productivity." The company now has about 150 temp employees out of 900 total production workers, and total headcount at the Owatonna plant is back to about 1,400.

Wendorff has become a grudging convert to the use of flexible staffing. Though he still prefers direct hiring, using temp workers "has been very successful." A Doherty representative works onsite handling many of the HR functions, such as recruitment, interviewing and additional vetting of work candidates, filling out paperwork and other activities. "From my [human resources] paradigm, I didn't want to do it. But the Great Recession kind of reset my thoughts," he said.

Worker shift?

But strong employer demand for temp workers cannot assume an endless supply of such workers. Some companies may be able to achieve perfect elasticity in their workforce when unemployment is high. Whether they can do that in tighter labor markets remains to be seen. Staffing agencies and employers contacted for this article reported a clear and fairly recent decline in the temporary labor pool, in terms of numbers and available skills.

This fall, Doherty had 1,000 unfilled openings—or more than 20 percent of all job orders, according to CEO Doherty. "Compared to a year ago, [lack of labor availability] is dramatic."

This is particularly evident in Doherty's Owatonna office. After the recession, unemployment in the city and surrounding Steele County hit 10 percent, and "people were walking in here looking for a job," said Mohammad. The county unemployment rate now sits below 5 percent, thanks mostly to growth in the county's large manufacturing base, which accounts for 26 percent of all private employment, double the state average. Now Doherty Staffing is beating the bushes trying to find people interested in temp assignments.

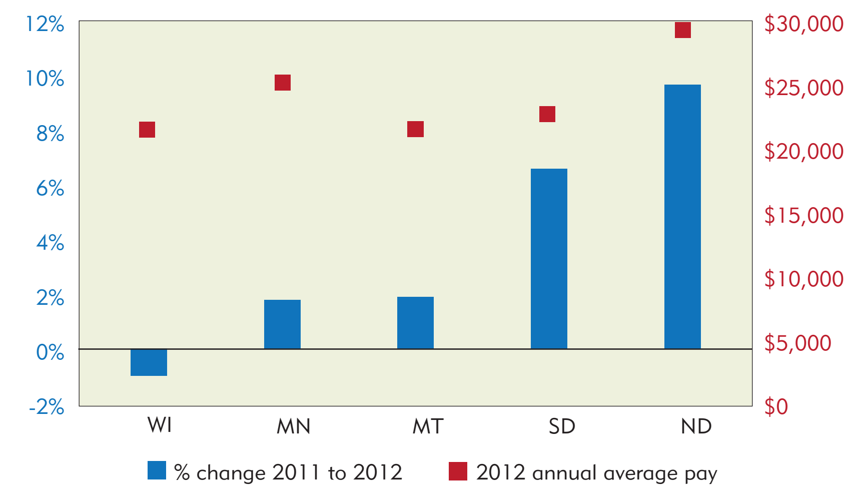
Every day, Mohammad's office sends 1,000 to 1,200 workers to its clients throughout southern Minnesota. "Our challenge is to find people to fill the 300 positions that are open" but unfilled, said Mohammad. Some firms have standing orders for workers, some of which are re-upped as soon as existing labor orders are filled. "Finding people is the biggest challenge. … We have been unable to bring openings down to 50, and that's a lot of lost revenue."

Mohammad's annual recruiting budget has been more than sufficient in the past to keep the new-worker pipeline full. Not any longer. "I blew through my recruiting budget [in 2013]. I had to go back to Tim [Doherty] to ask for more money."

Chart 3

Show me the money (please)

Growth in annual wages, temporary help services 2011 to 2012



Source: Bureau of Labor Statistics

Your lever, Mr. Worker

Of course, not all areas are enjoying low unemployment rates. But many metro regions and smaller regional centers in the Ninth District are. And where labor is getting tight, workers appear to be gaining some leverage they haven't had since before the recession, like greater say over work schedules and conditions, sources said.

The surest sign of worker leverage is higher wages. Wages for temp workers are generally (though not universally) comparable to those of similar permanent positions, according to most industry sources. However, total compensation including benefits for temp workers is widely believed to be lower; what employers pay staffing firms for their service is usually recovered in the benefits they no longer provide for these workers. One manufacturing source said the cost mostly comes out in the wash. "It's even-steven."

But tracking wages in this sector is difficult, particularly in real time or at regional levels with varying degrees of unemployment. Government data also do not distinguish wages for similar temporary and permanent jobs. Figures from the Bureau of Labor Statistics (BLS) suggest that temp wages in district states started to grow in 2012 (the most recent figures available), particularly in the Dakotas; wages increased by almost 10 percent in North Dakota in 2012 (see Chart 3).

However, evidence of rising wages is harder to come by in the field. "There is a huge reluctance to raise wages" among firms because they are unsure if they will be able to pass those costs along to their customers, said Doherty. The firm's 1,000 unfilled job orders result not so much from a lack of job seekers, but because job seekers are unwilling to accept jobs at prevailing wages, which Doherty characterized as between $10 and $15 an hour. He said wages have risen very little since the recession despite the fact that unemployment in Minnesota has fallen considerably.

Staffing firms also cannot raise wages to attract more workers unless those higher wages can be charged back to clients, and that's a tough sell in the current economy. For employers, the idea of paying higher wages runs headlong into the reality of competition.

Wendorff, from Viracon, acknowledged the importance of wages in finding qualified workers, but said the company's hands were tied. "We've looked at wages hard. There isn't an employer that doesn't want to pay $30 an hour." He added that industry competition dictates wage rates and that "moving from $11.70 to $12 is not going to make that

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Ninth District employment services sector: Not a temporary blip

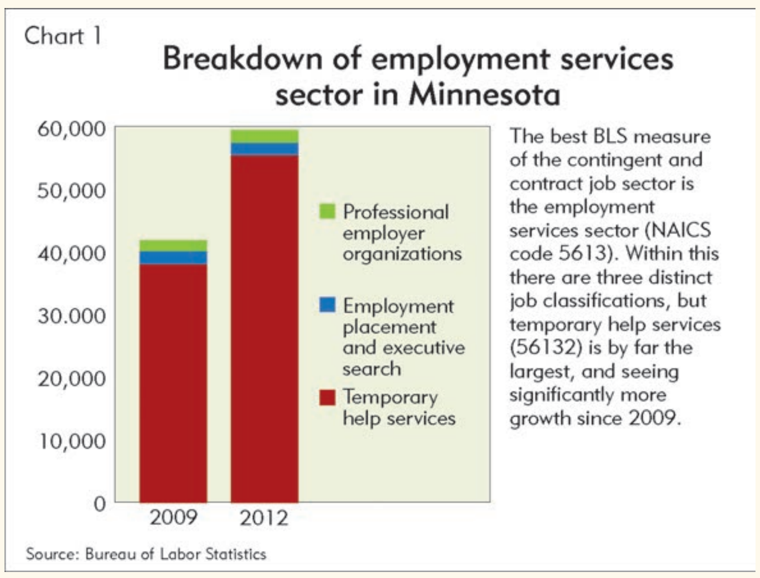
The most comprehensive and updated government data on contingent jobs come from the employment services sector (NAICS code 5613), tracked by the Bureau of Labor Statistics (BLS). Within this code, there are three distinct job classifications: professional employer organizations (56131), temporary help services (56132) and employment placement and executive search (56133). Of the three, temporary help services is by far the largest and has seen the strongest growth since 2009, as the Minnesota example illustrates (see Chart 1).

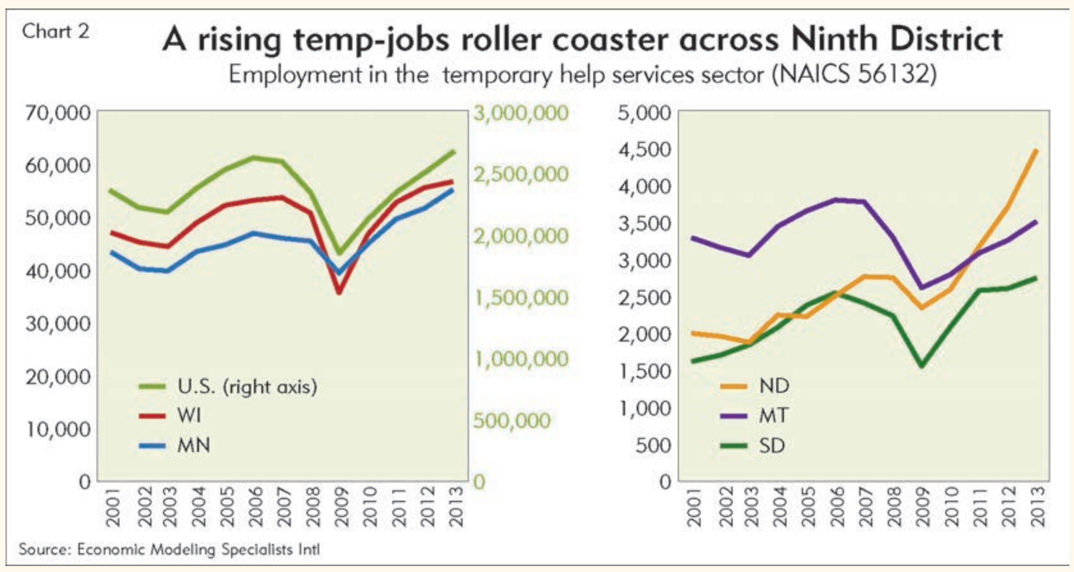
The size and growth of temporary help services varies across Ninth District states. As a percentage of total employment, it is lowest in Montana and South Dakota, highest in Minnesota and Wisconsin, and growing quickly in North Dakota, according to data provided to the *fedgazette* by Economic Modeling Specialists Intl. EMSI estimates use a composite employment data set of more than 90 sources, including an enhanced, unsuppressed version of quarterly BLS surveys.

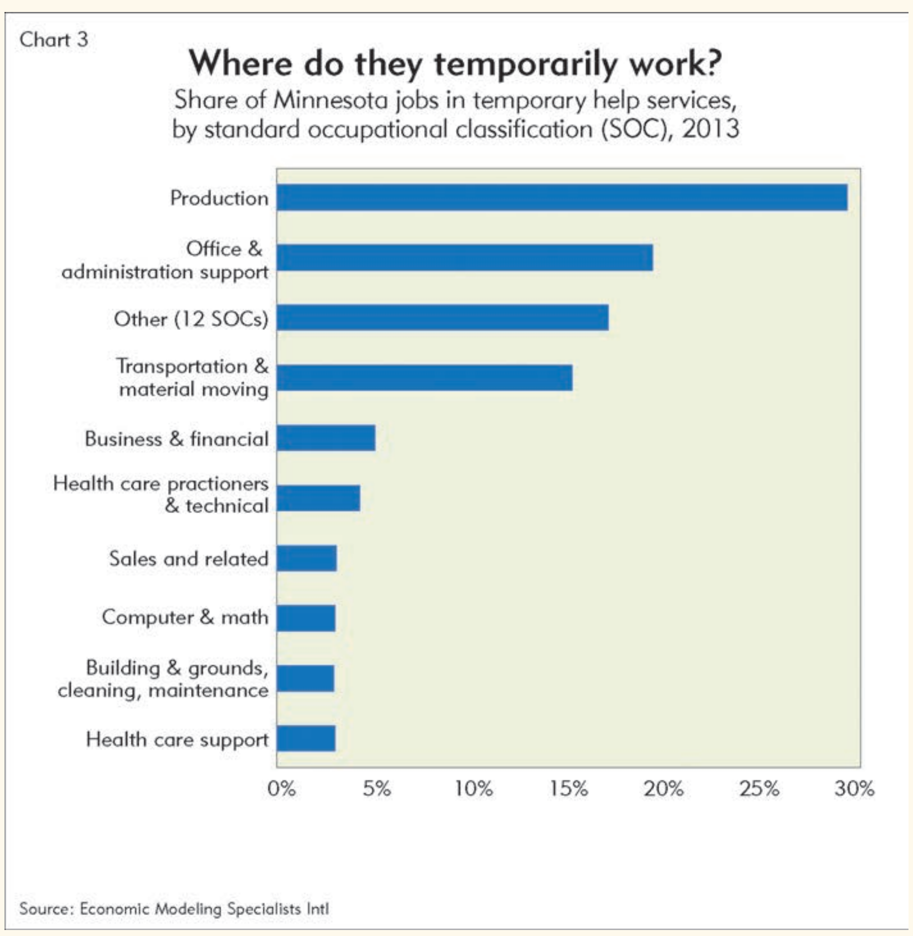
But all district states have seen the same general pattern of significant job loss preceding and during recessions, followed by strong growth coming out of recessions (see Chart 2). In 2013, temp jobs in district states rose above prerecession levels, with the exception of Montana. The Dakotas have seen the biggest gains in percentage terms, not only since the end of the recession, but over the past dozen years. In fact, since 2009, North Dakota and South Dakota have seen the biggest increase in temporary help workers in the country, with both states doubling their headcount in this sector.

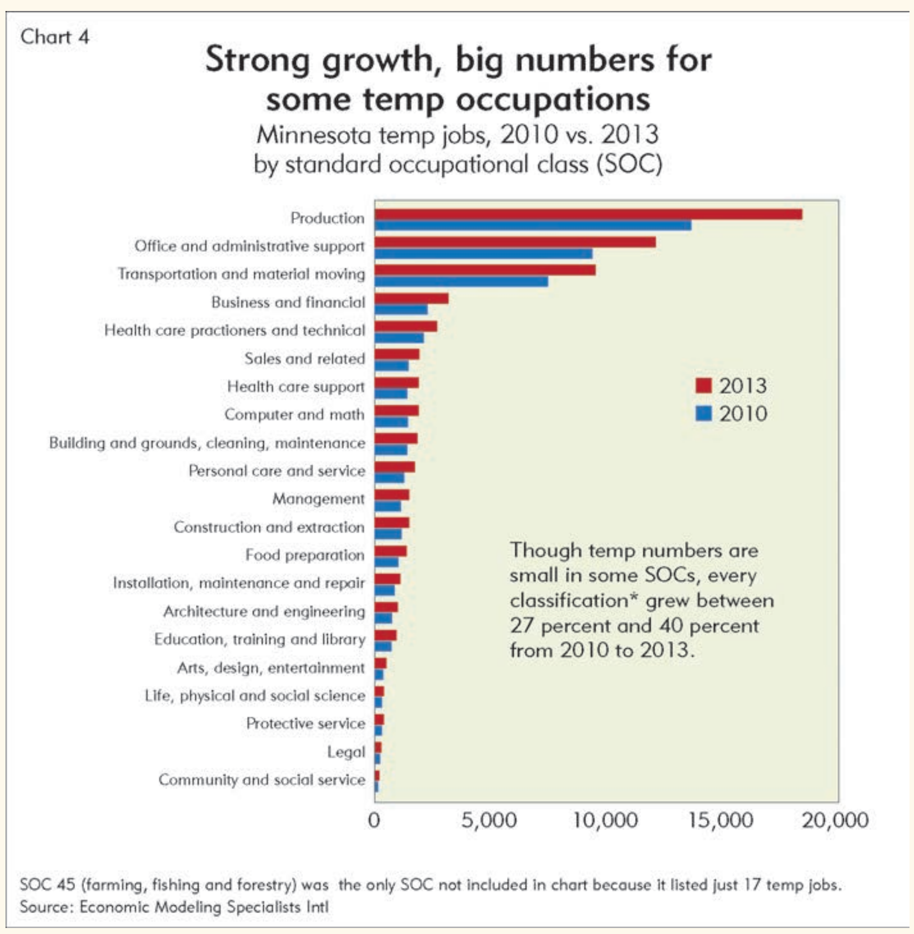
Temp workers now permeate virtually all industry sectors, though some much more than others. Production jobs in manufacturing are still the most common, followed by office administration. But other industries like health care, finance and information technology are gaining a greater foothold, and growth is widespread among standard occupational classes (see Charts 3 and 4).

—Ronald A. Wirtz









The trick is to discover and apply worker skills that might not exactly fit the job description.

This can be especially useful to older workers, or those who have been out of work for a long time.

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much of a difference. You have to make a big move," and that wasn't feasible for the company.

Most staffing executives said higher wages were critical for recruiting a qualified workforce in 2013. While employers once held a superior negotiating position, Doherty believes that the pendulum has swung in favor of workers. In 2014, he said, "workers are going to have the opportunity to be more choosy and be able to dictate higher wages." Mohammad, the Doherty manager in Owatonna, agreed. "If companies don't make adjustments, they are not going to find the talent."

Loftesness, in Sioux Falls, said she is seeing wage compression from the bottom up, with wages for lower-paid, entry-level positions rising and differences between base wages and shift pay narrowing. She said she hasn't seen a lot of change in the number of unfilled openings, "but they are taking longer to fill," in part because unemployment in the region is hovering near 3 percent, and workers can afford to be more selective and footloose. "It's a challenge. People are more likely to leave their job. In the past, people would stay put. That's starting to loosen up."

With other options available, SIA's Osborne noted that "temps have no loyalty. You have to treat them well to keep them." Employers, therefore, "will have to pay more if the pool of available workers prefers not to take those jobs."

Foot in the door

At the same time, workers might continue seeking temp jobs if there are good linkages to permanent employment. The trends here, as they are for wages, are difficult to discern. Staffing agencies have long been involved in so-called temp-to-perm assignments that put workers in temporary jobs with the prospect of gaining a permanent job. Sources likened the process to "dating before marriage" or an "on-the-job interview."

Temp-to-perm is a useful personnel strategy for employers because traditional vetting through applications and interviews only reveals so much about a worker. Getting a candidate as a temporary employee allows a firm to gauge productivity and overall performance that are very difficult to ascertain in an interview. Mohammad said all of his clients use Doherty to manage their labor needs over the long term. "I can't remember the last time [a client] needed someone for three weeks and was done."

Wendorff, from Viracon, said temp-to-perm gives both workers and employers "a chance to kick the tires." The Viracon plant "rolls" over temp workers every 90 days, with some coming back, but with virtually no one on long-term temp assignment. "We don't like having temps for eight months." When Viracon needs more permanent employees, it looks first to its temporary workforce. Given a relatively high turnover rate, especially for entry work, there are a fair number of opportunities, and Wendorff estimated that the company has hired 150 permanent workers who came in through the temp door.

This vetting process is also good for workers, three-quarters of whom are seeking permanent jobs, according to SIA's Osborne. Permanent placements rates vary by the type of work, but on the low end, the rate is about 30 percent. The average job tenure is about three to four months, which means chances are "quite good" that if you can string together three jobs, "things will work out for you in finding permanent employment if you're playing the odds."

Whether fast-growing temp jobs, combined with temp-to-perm efforts, are facilitating a more rapid recovery in full-time employment is difficult to say. Sluggish growth of full-time jobs overall—in the face of rapidly rising temp jobs—suggests that the industry's effect on full-time employment has been mild, or worse. However, this ignores what would have happened if the industry had grown at more normal levels and employers were left to add to payrolls in the more traditional fashion.

Anecdotes, for their part, are mixed. On the plus side, Doherty said his firm is seeing more permanent placements, and the Wisconsin Association of Staffing Services reported that 86,000 employees leveraged their temporary job into permanent employment—about one in every six (gross) job gains that year.

But not everyone is seeing more temp-to-perm placements. Jerome Gerber is vice president for Award Staffing of Bloomington, Minn., which has three staffing offices in the Twin Cities placing workers in industrial, technical, hospitality and other positions. Gerber said that only about 25 percent of Award's temp workers were landing full-time jobs, and that figure has trended down the past two years, with workers waiting longer for permanent offers. He added that he's seen "a significant number of companies make the decision to have long-term temporary assignments versus temp-to-hire arrangements in order to protect themselves from what they fear will be the negative impacts of the Affordable Care Act."

Johnson, with Express in the Twin Cities, said more than 40 percent of Express temp workers transition to full-time, permanent workers. While that's above the industry average, "previously, we were seeing 60 percent of our workers go full time," Johnson said. "Companies are cautious with full-time employees because there is still so much indecision" because of federal policies and compounded by an uneven economic recovery.

A game of pairs

All of these factors are pushing further evolution in staffing services. The industry grew up filling job slots for short periods. But it now sees itself as a strategic long-term partner, aligning the needs of both clients—employer and employee—in an economy that has a simultaneous surplus and deficit of labor, strong demand for both jobs and workers in some sectors, and a need for better matchmaking.

For example, much attention has been given to a so-called skills mismatch—namely, that job openings go unfilled while jobless people remain unemployed because their skills don't match what employers are looking for. As workers fail to find jobs, as one source put it, "weeks turn to months, [and] job seekers get discouraged and leave the workforce."

Many believe this is where the real opportunity lies for the staffing industry—to play a greater "coupling" role connecting the pipeline of available workers to labor-seeking employers, particularly those using temp workers as a test ground for their permanent workforce.

The industry still has a lot of room to grow, Osborne noted. "Large companies are just learning how to use [temp workers] effectively. Many think, 'Oh, temporary labor?' I didn't think I could do that.' … A lot of [firms] don't know about it that I think should."

The same could be said for workers, many of whom see staffing firms as a last resort rather than a first option when they're job hunting. One myth Loftesness said she constantly has to battle is that "people think they have to pay us to find them a job." In reality, "people can have their own HR department and not have to pay for it."

But for the industry to expand its matchmaking abilities to more workers, it will have to address some ingrained, negative impressions in the workforce—that it has mostly part-time, dead-end jobs with low wages, no benefits or sick days and little opportunity for people to develop new skills or advance their careers.

In fact, many staffing firms offer medical and retirement benefits. Industry sources acknowledge that such plans are typically modest, even spartan, compared to those available to permanent, full-time employees. But these benefits are often lightly subscribed among temp workers because most temp workers do not expect to be at the job long and want to maximize their take-home pay. Getting benefits like health care and retirement plans "is not why people get temp jobs. People want cash" to pay the mortgage and car loan, with the eventual hope of catching on somewhere permanently with full benefits, said SIA's Osborne.

Nonetheless, a perception hangs over the industry that it does the dirty work for unscrupulous employers out to take advantage of workers, particularly low-skill workers doing day labor and other menial tasks who often don't have good job alternatives. Industry sources, like Loftesness, acknowledged that "in all business, there are people who don't represent the industry well."

Osborne said he gets frequent media calls, and most view the industry skeptically. "Almost 100 percent are against [temp work]. They are sure it's some form of worker exploitation."

And some of that does occur, he said. "This is an industry with free entry. If you have a telephone and a garage you can open" a staffing agency. Given this low barrier to entry, "you will get people who are not doing things right," Osborne said. But those are a small minority, he said. If that were not the case, workers would stop patronizing these services, especially as unemployment fell, and the resulting turnover would be costly to firms, said Osborne.

The likelihood of abuse is higher in places with ample labor supply, where workers have fewer opportunities to take their services elsewhere. But in places with low unemployment, such as

Politically, the trend in our country is to be more like Europe.

More stringent (European) laws regarding firing of permanent employees has fostered a temp worker rate twice that in the U.S.

North Dakota, "the extreme competitive nature of the staffing industry combined with a limited labor pool would naturally take care of the problem, I would hope," said Dietz of Preference Personnel in Fargo.

In the end, the industry will grow to the extent that it can convince both employers and workers that it is providing a valuable service. Loftesness pointed out that "the job opportunity and people are relative." The trick is to discover and apply worker skills that might not exactly fit the job description, but can be molded to be a good fit.

This can be especially useful to older workers, those in declining industries or those who have been out of work for a long time. These workers "don't know how to use [and reapply] the skills they have" in a different setting, said Loftesness. "That's where our industry is invaluable. We look at skills and work history and look at where we can transfer them" to the right company where both parties benefit. Dietz agreed: "Oftentimes an employment professional sees things in a worker that a résumé can't do justice."

"We all want to choose our employer," said Mohammad. But many "don't know what to do or where to go—'What's a good fit for me?'" A worker might do separate stints with different clients, or even with different staffing agencies. "We have the opportunity to provide workers with continuous employment" and to establish a work history and the skills necessary that will attract an offer for permanent work.

A new ceiling?

In some ways, the industry suffers a reputation worthy of an adapted Yogi Berra-ism: Nobody wants the type of job offered by staffing agencies because they only offer jobs that millions of workers are taking.

However viewed, continued growth is predicted for the industry, in both the short and long term. SIA estimates that staffing and recruiting sales will increase 6 percent in both 2013 and 2014. Through 2020, the BLS projects that employment services will grow two-thirds faster than overall employment, adding 631,000 jobs, a 23 percent increase over 2010.

In fact, the historical employment ceiling for temp workers—between 2 percent and 2.5 percent of employment, depending on the measure used—could possibly break in the coming years, a result of the continued soft recovery and further uncertainty about federal fiscal and other economic issues.

But many observers expect continued growth because the industry is an underutilized clearing mechanism for employers needing labor and workers needing jobs. Loftesness noted that only 15 percent of employers use staffing agencies. "We definitely think the numbers have room to grow."

Gerber, from Award Staffing, sees the temp industry entering uncharted waters, with unprecedented growth on the horizon. "In the past, there were often direct correlations between economic indicators and the ebbs and flows of the staffing industry. Those correlations no longer exist because of the dramatically disparate drivers of growth" in the industry. In three to five years, Gerber said, "I expect the ceiling to exceed 10 percent of the workforce."

Osborne was dubious of a 10 percent ceiling. "Not anytime soon. Overall, most people want permanent jobs because they have mortgage and car payments every month," and a steady paycheck allows them to make those payments, said Osborne.

But he also noted that third-party job matching is growing and is finding a new niche online. Nationwide, SAI has identified 67 online-only staffing agencies—like eLance, Odesk—many of which cater to professional types not widely served by traditional staffing agencies. "It's the fastest growing part of staffing," said Osborne. "It's going to be a huge deal and could increase penetration tremendously" because it gives both potential employer and worker more information and work history through ratings and other features, he said. And as more sectors of the economy understand the competitive opportunity offered by a contingent workforce, "that would take us to several more percent" of employment.

If that occurs, the United States would only be catching up to employment trends in some other countries. "Politically, the trend in our country is to be more like Europe," said Doherty, where more stringent laws regarding hiring and firing of permanent employees has fostered a temp worker penetration rate twice that of U.S. firms.

Express Employment Professionals has more than 600 office locations in the United States, Canada and South Africa. Johnson said the company operates nearly two dozen locations in South Africa, where "roughly 7 percent of the country's workforce is on the payroll of Express or one of our competitors. So we expect the United States to follow these global trends, and a 3 percent to 5 percent temp penetration rate in the U.S. is not unrealistic." f

Research assistants Dulguun Batbold and Bijie Ren contributed data research to these articles.

Flood insurance: Rolling some expensive dice

Plagued by low takeup rates, higher premiums loom for many Ninth District homeowners near water as government-sponsored flood insurance seeks higher financial ground

By RONALD A. WIRTZ
Editor

Big-ticket household purchases and other financial decisions often come with a lot of cost-benefit questions. Do we need it? Can we afford it? Can we afford not to have it?

When it comes to the purchase of flood insurance, a different question comes to the fore: Do we feel lucky?

Despite the fact that floods are by far the most common and costly natural disaster, many households and firms—even those in high-risk areas—don't carry flood insurance. The reasons vary, but many choose not to carry flood insurance for the simple reason that they believe they can do without, being lucky enough to avoid spring floods from winter's melt or flash floods from torrential rain.

Most years the strategy works well, and households can save an average of $500 to $1,000 annually. But floods are predictably unpredictable: While they are hard to forecast in any given year, historical data show again and again that they will occur, eventually, in many places. And when they do, they are often devastating for people and communities.

There's no better example in the Ninth District than Minot, N.D. After a major flood hit the city in 1969, flood dikes were built to ward off a similar engorgement of the Souris River, which snakes through the heart of town. Then, in June 2011, the mother of modern floods poured into town, swamping previous river crest levels and the flood barriers meant to protect the city, which remained flooded for much of the summer. More than 4,000 homes and businesses were damaged, many catastrophically. Fewer than 10 percent of structures carried flood insurance.

The historic flood did not come without warning. Residents were alerted to possible serious flooding in late spring, when major precipitation fell in the Canadian watershed that feeds the Souris, "but a lot of people believed it wouldn't affect them," said Lynn Klein, an agent with First Western Insurance of Minot. While the agency took numerous phone queries about flood insurance before the flood hit, Klein estimates that only about one in eight followed through and bought a flood policy.

"We can't get people convinced that flood insurance is very, very important. … There's not enough education out there," said Klein. "[People] are so afraid of [the cost], they don't want to listen." This despite the fact that flood insurance is a government-operated market and has long been subsidized for high-risk areas to encourage more people to protect their properties.

But in Minot and across the Ninth District, homeowners living anywhere near water would be wise to start paying more attention because flood insurance subsidies are being phased out, thanks to federal legislation passed in 2012 and a federal effort to update and remap flood-prone areas.

Some flood insurance is purchased voluntarily. But many in high-risk areas are required to have it, and when the subsidies end, these policyholders will see premiums rise substantially, bringing the cost of insurance more in line with the actuarial risk to property exposed to floods. As a result of an ongoing federal initiative to remap flood plains, some property owners are finding out not only that they have to start buying flood insurance, but at much higher, unsubsidized rates.

Though the number of flood insurance policies is comparatively small in the Ninth District, the shift to full-rate premiums will hit policyholders here relatively hard because district states have a high percentage of subsidized policies. Price hikes also will force some households and businesses to reevaluate the costs and benefits of living close to water, and will convince some who purchase insurance voluntarily to jettison their coverage, creating a shallower risk pool and potentially undermining the insurance program.

Flood policy 101

Roughly 90 percent of all natural disaster events involve some flooding, according to the Federal Emergency Management Agency (FEMA), and these events cause more damage in the United States than any other severe weather event. Estimates vary, but the average homeowner is several times more likely to experience loss from flood than from fire during the course of a 30-year mortgage; for those located in flood-prone areas, the risk ratio skews even higher.

Because of the high incidence and costly damage associated with floods, private insurance carriers historically have deemed the threat of flood uninsurable, or insurable only at great cost. Most home and business owners simply did without. But as more development migrated to the amenities of coastal, river and lake shorelines, U.S. taxpayers faced increasing costs when flooding hit properties ill prepared to absorb the financial damage.

So in 1968, Congress created the National Flood Insurance Program (NFIP) to provide—and in some cases, require—flood insurance for structures in or near flood zones. Today, property owners are required to purchase flood insurance if they have a federally backed loan or mortgage and structures are located within a so-called special flood hazard area, which has a 1 percent annual chance of flood (also called the 100-year flood plain). Those outside special flood hazard areas can purchase insurance voluntarily.

Flood insurance policies are sold by private property and casualty insurance firms on behalf of the NFIP. Premium rates vary depending on a structure's proximity to flood-risk zones and other factors (like a structure's age), with insurers receiving fees for acting as the go-between. Average annual premiums run about $500 for preferred-rate policies and about $1,000 for standard-rate policies (though the premium itself does not necessarily indicate flood exposure; more on this later).

Much like homeowners insurance, flood insurance policies are in force for one year and have a 30-day waiting period before coverage becomes effective, a modest attempt to dissuade homeowners from waiting until the last minute to buy flood insurance. To encourage owners in high-risk areas to purchase flood insurance, the NFIP charges artificially low premiums for about 20 percent of policies nationwide.

The NFIP currently covers approximately 5.6 million households and businesses across the country and about 54,000 in the Ninth District. The penetration rate of flood insurance is hard to calculate exactly, because policies insure residential and business structures for which there are no hard counts. But for context, there are more than 4 million single-family and mobile homes in Ninth District states.

Logically, penetration rates are higher in and near flood zones. Ceil Strauss is the state flood plain manager at the Minnesota Department of Natural Resources (DNR). She estimated that insurance levels among all structures in flood plains likely ranged between 10 percent and 20 percent at the community level, with the large majority purchasing it because they are required to do so by virtue of having federally backed mortgages. This involves any mortgage from a financial institution that is supervised or insured by federal agencies like the Federal Deposit Insurance Corp. or originated through or backed by federal agencies like the U.S. Department of Veterans Affair or Federal Housing Administration or purchased in the secondary market by Fannie Mae or Freddie Mac.

"There are not very many that get it voluntarily, except maybe for a few that have memory of past [floods]," said Strauss. While the percentage of voluntary flood policies is low, their overall numbers are considerable. Districtwide, there are more policies outside high-risk areas for the simple reason that high-risk flood zones are geographically small and most people live in safer areas.

Cloudy, with a 50 percent chance of ruin

It's common practice to hold off buying flood insurance until there's evidence of a potential flood. The historic floods of 2011, which affected much of Montana,

Continued on page 10

Catastrophic damage

More than 4,000 homes and businesses were damaged, many catastrophically. Fewer than 10 percent of structures carried flood insurance.

Minot, N.D., June 2011

ALLEN FREDRICKSO, REUTERS

Residents were warned

The historic flood did not come without warning. Residents were alerted to possible serious flooding in late spring. First Western Insurance of Minot took numerous phone queries about flood insurance before the flood hit in June, but only about one in eight followed through and bought a flood policy.

FEMA: $189,000,000

In 2011, almost 7,500 households in North Dakota received $96 million in direct grant assistance from FEMA (by definition, they were uninsured). FEMA spent another $93 million on other housing assistance, including bringing in 2,200 trailers to shelter those displaced from their homes in Minot.

Afraid of cost

"We can't get people convinced that flood insurance is very, very important. ... There's not enough education out there. [People] are so afraid of [the cost], they don't want to listen."
—Lynn Klein, insurance agent

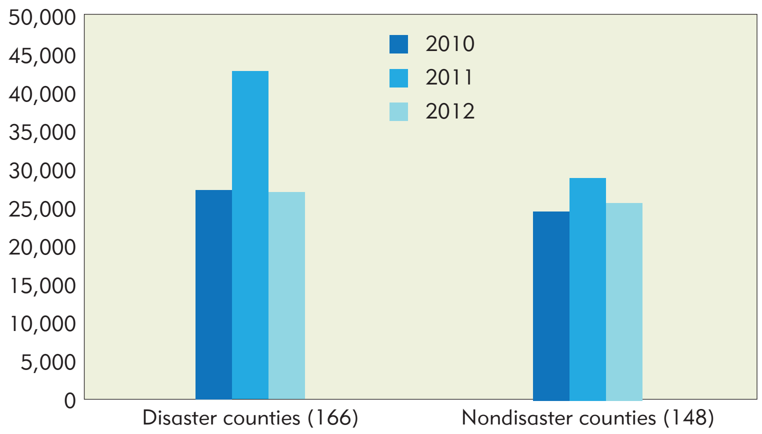
Premiums will rise

But many in high-risk areas are required to have [flood insurance], and when the subsidies end, these policyholders will see premiums rise substantially, bringing the cost of insurance more in line with the actuarial risk to property exposed to floods.

Chart 1

Prepping for disaster?

Annual change in flood insurance policies, by incidence of disaster declaration in 2011, Ninth District states*



* Including MN, MT, ND, SD and all of WI. Some small, rural counties are not included in either count because they had no flood insurance policies in force.
Source: National Flood Insurance Program

Flood insurance from page 8

the Dakotas and portions of western Minnesota, offer a good illustration of this practice.

In December 2010, there were 52,500 flood insurance policies in district states. Over the coming months, heavy winter and spring precipitation prompted forecasts of widespread flooding by local meteorologists and the U.S. Geological Survey—forecasts that proved not only correct, but possibly understated.

By December 2011, the number of policies in force had jumped by slightly more than 20,000—or nearly 40 percent. The increase was almost entirely among voluntary buyers living in counties declared a flood disaster sometime during that year (see Chart 1).

The following year, shortly after some of the most damaging floods in decades, the number of policies in these same disaster counties actually fell 1 percent below 2010 levels—symptomatic of a mentality that floods, like lightning, won't strike twice in the same place. In contrast, flood policies in district counties not declared flood disasters in 2011 saw considerably less volatility from 2010 to 2012. (See sidebar for a breakdown of flood policies in Ninth District states.)

Better precipitation forecasts and analytical tools for predicting flood crests have made this wait-and-see strategy for buying flood insurance somewhat more reliable than in the past. Flood policies in 2011 rose because heavy snowpack and high moisture content were "widely advertised" leading into the spring, according to Strauss.

She added that "some people can benefit" from buying insurance in this manner, but "more and more flooding comes from events you can't predict ahead of time"—like the torrential rains and flash floods in the Boulder, Colo., region in September 2013 and in Austin, Texas, more recently. Property owners there had little warning of the coming deluge.

Bailing out

Does it matter that people don't buy flood insurance? Certainly not when rivers and streams stay within their banks. But when floods inevitably strike, insurance provides a financial security blanket. Since 1978, the NFIP has paid policyholders more than $500 million for flood claims (see additional policy information in Chart 2).

But given the regularity of floods in some district states, that blanket is perilously thin. Since 1970, according to FEMA, there have been more than 120 declared disasters in five district states involving some degree of flooding (many also include other events like severe storms); Minnesota has averaged close to one flood disaster per year over this period.

And it's not just those directly affected who get a soaking when flood losses are uninsured. Since 1978, for example, the NFIP has paid out $256 million to flood policy holders in North Dakota—easily the most among Ninth District states. But that figure is minuscule compared with uninsured losses and disaster assistance provided by the federal government in repeated floods. From the 2011 flood alone, uninsured costs to government, private residents and business owners easily surpassed lifetime NFIP-insured losses. That year, almost 7,500 households in North Dakota received $96 million in direct grant assistance from FEMA (by definition, they were uninsured). FEMA spent another $93 million on other housing assistance, including bringing in 2,200 trailers to shelter those displaced from their homes in Minot.

While it's easy to support helping people in need, emergency assistance from FEMA and other government agencies ultimately discourages the use of flood insurance because it introduces what economists call moral hazard—the tendency of people to take risks because they don't bear the full consequences of their actions.

"The people that did the right thing [by buying flood insurance] are not getting rewarded," said Strauss, with the Minnesota DNR. Instead, people with flood insurance "are seeing their neighbor [without insurance] get bailed out. That kind of assistance that rewards bad decision-making is a problem."

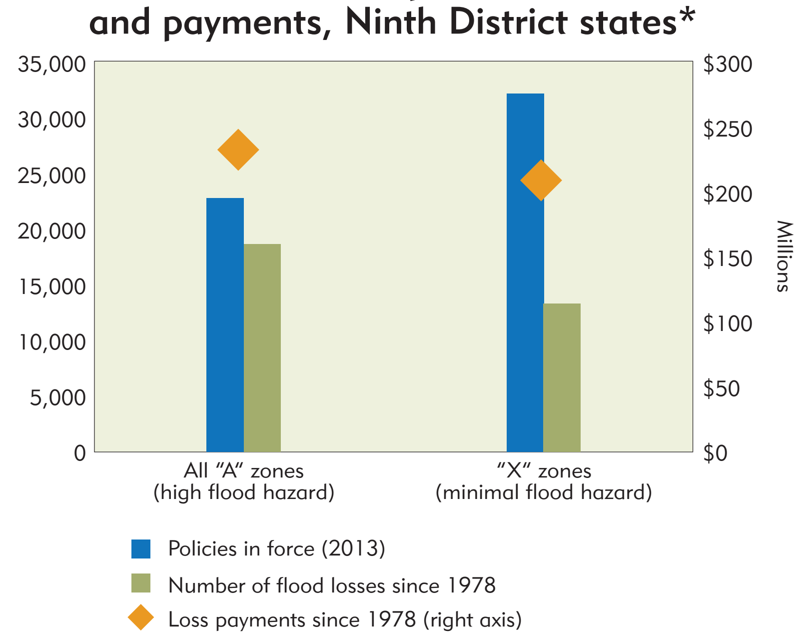
Emergency flood aid to uninsured households is not particularly generous. For those hardest hit in South Dakota during the 2011 floods, roughly 1,200 households received an average of just $4,000 in grant aid, according to FEMA records. Average grant aid was higher in North Dakota because of the devastation in Minot, but still averaged just $13,000—a small fraction of the damage sustained by most households. In Minot, 4,100 structures were inundated, about 80 percent of which saw at least six feet of water on their main floor. The NFIP estimates that the average damage from four feet of water is $75,000.

But such details are not widely understood. Disaster news coverage often focuses on government recovery assistance, with congressional leaders passing additional aid packages in the hundreds of millions, even billions, of dollars for natural calamities such as hurricanes Sandy and Katrina. Failing to respond to a disaster spells political calamity for elected and appointed government officials. But low subscription to flood insurance programs suggests that responding with aid undermines a program specifically designed to cover losses from floods, and at much more comprehensive levels.

The NFIP has tried to persuade more consumers to buy flood insurance by subsidizing premiums for those in flood-prone areas. But that has consequences

Chart 2

Flood insurance policies, losses and payments, Ninth District states*



* Including MN, MT, ND, SD, and all of WI.
Source: National Flood Insurance Program

This is low risk?

Even low-risk areas see floods. FEMA data show that 37 percent of NFIP policies that incurred loss in Ninth District states occurred among policies in moderate- and low-risk "X" zones.

Total insurance payments to "X" zone policies were almost as much as payouts for flooded structures in high-risk (or "A") zones.

A majority of flood policies in the district are in "X" zones because of a much larger population base outside high-risk flood zones.

of its own. While subsidizing premiums has increased participation, it offers another helping of moral hazard because premiums charged don't reflect the real, actuarial risk of living in flood-prone areas. As a result, artificially cheap insurance has encouraged households and businesses to build or expand in areas where they historically had not (because of the high potential for personal financial loss) and transferred much of the financial risk to taxpayers.

This strategy worked for a while. Until 2003, the NFIP did a reasonably decent job of balancing the annual ledger of profits and losses despite the subsidies. But since then, major catastrophes—most of them coastal hurricanes—have put the program deeply in the red as more and more development was allowed along the coasts and near other water bodies, driving up damages when disasters hit. Once claims related to Hurricane Sandy are settled, the NFIP expects to have program debt—borrowed from the U.S. Treasury with permission from Congress—of about $28 billion. The program has imposed surcharges on policies to buy down the debt, but it's not nearly enough given the size of the deficit and the recent frequency of disasters.

The Ninth District isn't hurricane territory, but it gets its share of subsidies. In fact, the percentage of subsidized policies is higher among most district states than the national average of 20 percent (see Chart 3), in part because many structures located in flood hazard areas were already built (and then grandfathered) when flood plain mapping and management went into effect in the 1970s. Only North Dakota, at 14 percent, has a lower share of subsidized policies among district states, and that is likely because the state has much higher participation overall in flood insurance.

Make them pay

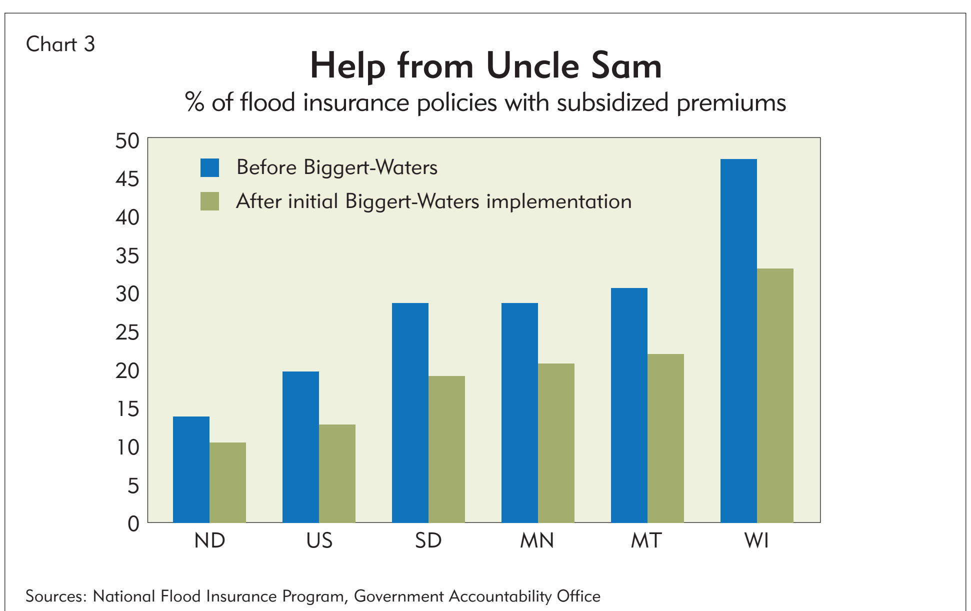
Thanks to these colliding trends—low participation, high subsidies, steep program debt—significant change is afloat for flood insurance, especially for those with subsidized policies. In late 2012, Congress passed the Biggert-Waters Flood Insurance Reform Act in hopes of eliminating the moral hazard of artificially low flood insurance costs and putting the NFIP on a sustainable financial path. It does so by eliminating subsidies for flood insurance and dramatically increasing premiums for policies in high-risk areas to reflect true flood risk.

Biggert-Waters provisions won't all happen at once, and there are a lot of quirks to the law, so its full effect will likely come in waves—some small, others larger. For example, though passed more than a year ago, the first major changes legislated by Biggert-Waters are just now taking root.

This past summer, subsidized rates for nonprimary residences, secondary residences, businesses and repetitive-loss properties were phased out, and subsidies for some other, targeted types of properties were eliminated in October. This will affect roughly 438,000 flood insurance policies, or one-third of all subsidized flood insurance policies nationwide. In the Ninth District, the initial implementation of Biggert-Waters is expected to impact more than 5,000 property owners, or about one-third of the 16,000 subsidized policies in the district, according to data and calculations from the NFIP and the Government Accounting Office.

To help with the financial adjustment for these properties, premiums for existing subsidized policies will be gradually raised, with annual increases capped at 25 percent until rates reflect actuarial risk, which FEMA believes could take more than five years for some properties.

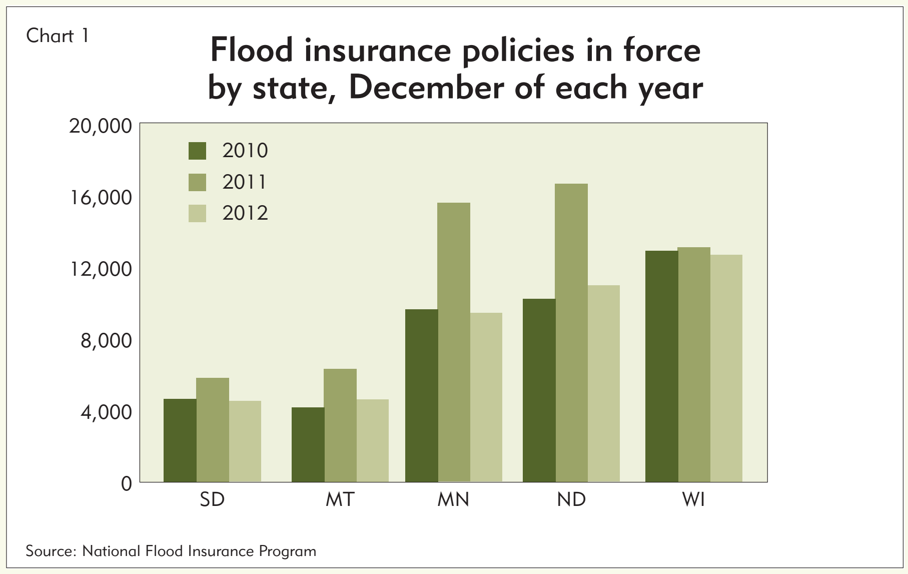
Continued on page 12

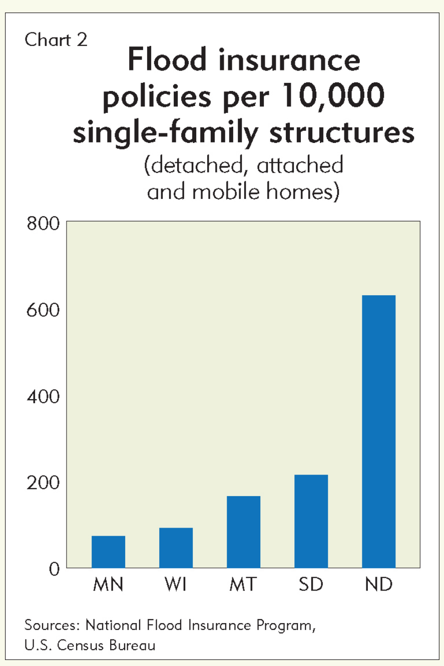


The little state that could (flood)

Two states drive the broader trend of flood insurance policies in the Ninth District. Ironically, one of them is the smallest district state by population.

North Dakota ranks second among district states in the number of flood policies in force, but has easily the highest concentration of flood insurance policies on a per household basis (see Charts 1 and 2). The Red River Valley is responsible for a large share of flood insurance policies. The valley is home to two of the state's largest cities (Fargo and Grand Forks) and more than half of the state's flood insurance policies because of the valley's exceptionally flat topography, which produces wide-reaching floods. Still, the state's comparatively high number of flood insurance policies equals just 6 percent of all single-family structures (an artificially high rate because some policies in force also cover small business and other nonresidential structures)





North Dakota and Minnesota are responsible for the lion's share of volatility in flood policies from 2010 to 2012 (see Chart 1). Montana and South Dakota saw somewhat smaller changes in annual policies and have significantly fewer policies. Wisconsin has the largest number of flood insurance policies among district states—a function of the state's larger population and large number of water bodies in that state. But it saw none of the volatility in policies in 2011 because the state experienced little of the flood threat seen in nearby states that year.

Flood insurance from page 11

A flood of confusion, controversy

For the remainder of subsidized policyholders, there is both good and potentially terrible news, depending on where they call home.

Those with existing flood policies on their primary residence will continue to pay the same rates—including those with heavily subsidized premiums—until they decide to sell the property or the insurance policy lapses or the property suffers repeated flood losses. But those in high-risk areas where flood policies have lapsed or are being sought for the first time (say, due to the sale of a home) face immediately higher premiums going forward. There is limited grandfathering of rates for some policies, most of which are expected to expire in 2014.

Compounding matters is Section 207 of Biggert-Waters, a controversial element that codifies an ongoing FEMA effort to modernize flood maps by remapping (and digitizing) the nation's flood plains to more accurately gauge risks. The remapping initiative was started more than a decade ago and subsequently reauthorized and backed with congressional appropriations. Many areas of the country and district are currently undergoing remapping.

That sounds like an important, if mundane, task. But the effort is redrawing the boundaries of many flood zones; consequently, an unknown number of homes and businesses previously believed to be in low-risk areas (with cheaper insurance rates) are being (or will be) recategorized to high-risk zones once remapping efforts are completed.

The combined effect of FEMA remapping and Biggert-Waters means that some home and business owners will be required to buy flood insurance where none was necessary before and forced to pay high, unsubsidized rates to boot.

The changes have caught existing homeowners and prospective home buyers by surprise. In Minnesota, Strauss said that insurance for structures near high-risk zones might see only small increases. Others clearly in the path of future floods with basements and walkouts more vulnerable to flood damage might see "increases of three, four, five times" their current rate, running into the thousands of dollars, said Strauss.

Steve Marquart, owner of Marquart Insurance Agency of Fargo, N.D., recently fielded a call from a woman looking to buy a house in Grafton, N.D., about two hours north of Fargo. The purchase price of the home was $110,000, and the woman had already put nonrefundable escrow money down on the house. In the past, he said a preferred-risk policy in that region would have cost $458 for $250,000 in coverage. But because the house was in a newly mapped flood zone, Marquart said the policy premium was over $3,000. "She said, 'I didn't know that. What am I going to do?'" according to Marquart.

> **Structures near high-risk zones might see only small increases. Others clearly in the path of future floods … might see "increases of three, four, five times" their current rate running into the thousands of dollars.**
>
> ***—Ceil Strauss***

Not surprisingly, higher premiums have created political controversy, especially for home and business owners newly required to buy flood insurance as a result of Section 207. There have been multiple efforts in Congress to delay, scale back or even eliminate portions of Biggert-Waters. The most recent, in mid-November, introduced a bill (the Homeowner Flood Insurance Affordability Act) that requires FEMA to complete an affordability study on rate increases—a study expected to take a year or more—and would delay many premium hikes until two years after the study's completion. As of the deadline for this article, the measure had only been introduced in the House of Representatives and sent to two separate House committees.

Several requests to FEMA for official comment and clarification on a number of issues were not returned, though several FEMA sources responded off the record and for background purposes. FEMA sources acknowledged that remapping has been complicated and delayed by a variety of issues, sowing local confusion about changes to flood risks and subsequent effects on insurance premiums. The mapping effort itself is fraught with sinkholes. Data in some areas are poor and can change when new data sources become available (like from a city or watershed district); funding to keep local remapping projects moving can be inconsistent, and there are frequent local challenges to preliminary flood maps.

The public review process of remapping will now most likely be dragged out even longer because homeowners are learning that the financial implications might be severe, according to a FEMA official, pointing to map updates in Boulder County, Colo., that took almost six years because of continued appeals from people with technical information to dispute the map revisions.

Mapping for major population areas is reportedly done, according to FEMA, but there are many pockets where mapping still needs to be completed. Marquart, the Fargo insurance agent, said FEMA maps have not yet been completed in some areas of the state, "and I don't have a good idea of when" they will be made available to agents. Right now, Marquart said he calls a FEMA office in Kalispell, Mont., to get accurate quotes based on the mapping completed to date. Those places that have not yet been mapped are still receiving traditional quotes. Insurance agents know rates are going up, but the "biggest thing would be to get us a map. Then, are we going to stabilize rates?" said Marquart.

According to the Minnesota DNR, as of early fall, roughly half of the state's counties were still waiting for final maps to be put in force (not including 36 counties where no new map is scheduled due to the lack of significant flood risk). Even areas already remapped have experienced challenges getting the public to understand the changes.

Clay County, Minn., lies across the Red River from Fargo and is home to Moorhead. The county was remapped, effective April 2012, according to Tim Magnusson, county planning director. He said the special flood hazard area (SFHA) "did enlarge somewhat in some areas and shrank in some others. I believe that we did have a net increase of homes in the SFHA, but the exact number has not been determined." There was also a substantial increase in the size of the 500-year flood plain.

Despite the finality of new maps, Magnusson said "not all owners have been made aware of their [flood-risk] status. We held public meetings and have made it well known that if a party wants to know the flood status of their property, all they need to do is contact the county planning office." But in some cases, Magnusson said policyholders found out about changes through their mortgage lender within a few months of the maps going into effect, often to tell borrowers they needed flood insurance. "I was very surprised at how quickly mortgage lenders caught on to the new maps," Magnusson said, adding that some policyholders "will probably see annual rate increases of $800 to $2,000 or more depending on their specific circumstances and elevations."

Will it hold water?

Short of repealing Biggert-Waters, or portions of it, eventually all subsidies will be eliminated for all policies, but it could take a decade or more, in part because the real estate market is likely to make adjustments on properties with high flood insurance costs as buyers drive a harder bargain for those properties.

Whether this becomes a broader problem for real estate markets, particularly in communities with significant business and residential property in flood plains, is just starting to unfold. Marquart pointed out that the average homeowner's insurance policy is about $1,000, and flood insurance for some might be three times that amount—an extra monthly payment that could otherwise buy $50,000 to $75,000 more house. "It makes it very difficult to buy a house" in the flood plain, said Marquart.

For many communities, however, the more immediate concern is completing a new flood map. In Minot, insurance agent Klein said the city was scheduled to have new flood plain maps in 2011, but completion was postponed after the devastating flood. "I don't think maps are done here yet. If it is done now, I'd like to know." A FEMA website shows that only 22 counties in the state have completed digital maps. Ward County is not one of them.

But even once maps are completed, Klein was skeptical that city residents would change their behavior when it came to the threat of flood. She said she sold a few additional policies this year, but not enough to warrant a trend despite the tangible hardship experienced by many in 2011.

It's a good illustration of the public's desire to roll the dice on flood risk, rather than to prepare for and manage that risk. People consistently underestimate the threat of floods and other natural disasters, and government is often too willing to come to the rescue when they occur. While there are understandable reasons for doing so in an immediate sense, both tendencies undermine any ability for insurance to mitigate the financial risk of floods over the long run.

Living next to water "is a choice," Klein said. She acknowledged that flood insurance "is a unique beast. I'm not sure how any one organization can get a handle on it." Requiring flood insurance wasn't the answer, she said. "But if you live closer to water, you need to pay more."

Bakken stands out in comparison with other shale drilling areas

By ROB GRUNEWALD
Economist

DULGUUN BATBOLD
Research Assistant

The steady growth of U.S. oil and gas production in recent years has come from a number of shale formations across the country. But not every region is seeing the same growth in economic activity from the energy boom cracked open by horizontal drilling and hydraulic fracturing technology.

The Bakken and emerging Three Forks formations in North Dakota and eastern Montana stand out from other shale areas for a host of reasons. For starters, the formations have a large amount of relatively more profitable oil reserves, as opposed to gas reserves. The Bakken region also had a relatively small preboom population and workforce and little oil and gas infrastructure. As oil drilling and production increased, it generated a high fraction of well-paid employment in oil- and gas-related activities compared with other shale areas, thus helping to drive unemployment rates down and average wages up.

Start with what's underground. In terms of total energy oil and gas content, the Bakken ranks about in the middle (see oil and gas shale area profiles for details). But the mix of that energy content is crucial. The Bakken has more recoverable oil than other shale formations (see table at right) and less natural gas and natural gas liquids, based on U.S. Geological Survey (USGS) estimates. That matters because oil prices have remained historically high since 2009, while natural gas prices have dipped, making oil relatively more profitable than natural gas and leading to greater increases in drilling and production compared with other regions.

Chart 1 on page 14 illustrates the strong growth in active drilling rigs in North Dakota relative to other states with shale formations. Pennsylvania showed the next strongest growth in rigs, which started in 2009 with drilling in the Marcellus formation, but softened in 2012 as the price of natural gas remained low.

The increase in drilling activity in the Bakken has led to robust growth in oil and natural gas production. North Dakota's oil production increased about 10-fold since 2001, and the state is now the second largest oil producer in the United States after Texas. In terms of gas production, Texas remains the leader, though both Pennsylvania and Arkansas posted solid growth in natural gas production.

Of course, one reason for the Bakken's high growth in oil production is the relative scarcity of preboom activity. In 2004, North Dakota had an average of 15 active oil-drilling rigs operating in the state. By 2012, the state had over 180 active rigs.

In contrast, Texas already had a mature oil and gas industry prior to the horizontal drilling and hydraulic fracturing boom. In 2004, the state had 500 rigs in operation, which increased to 900 rigs by 2012. Much of the infrastructure necessary for this growth utilized infrastructure already in place for conventional oil and gas activities nearby and in the Barnett, Eagle Ford and Permian Basin formations.

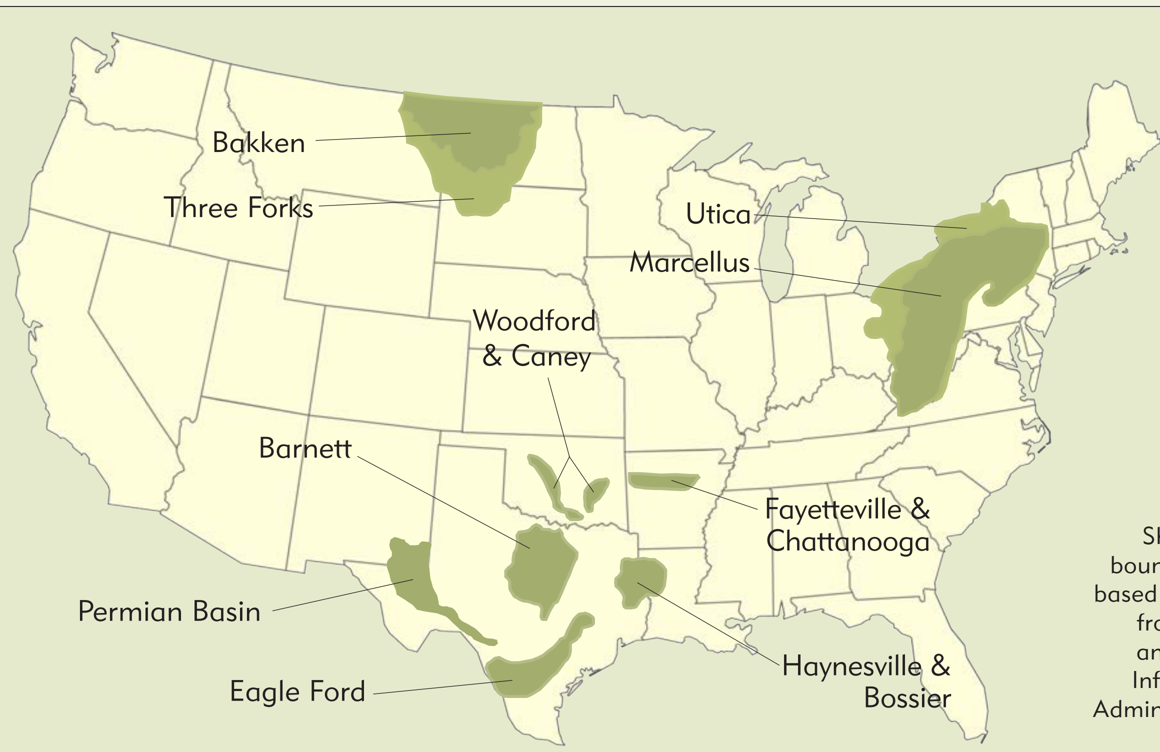
Also, unlike states such as Texas and

Continued on page 14

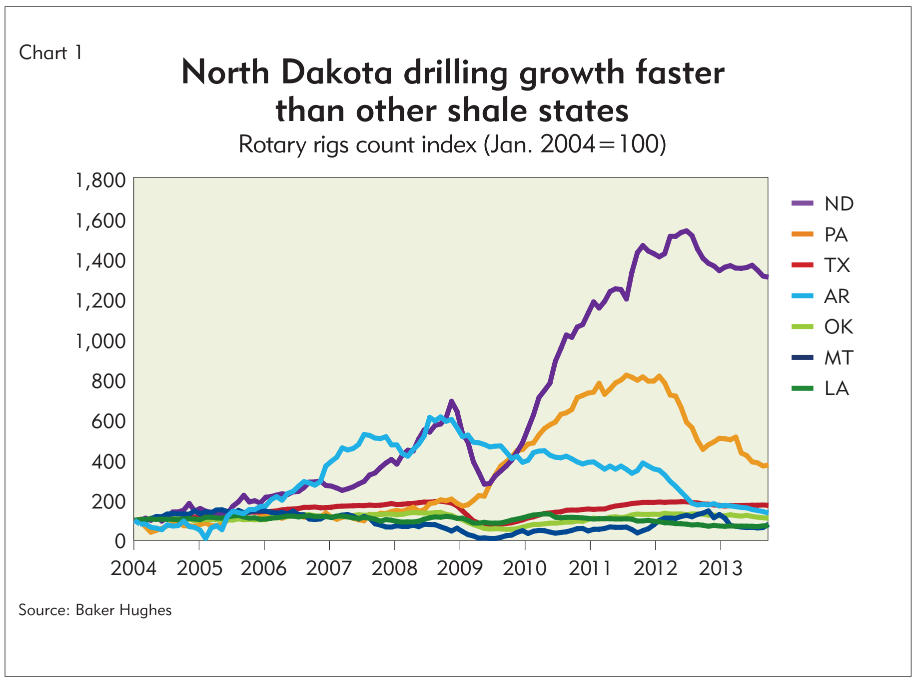
Bakken has more recoverable oil than other shale areas
USGS assessment estimates of continuous resources

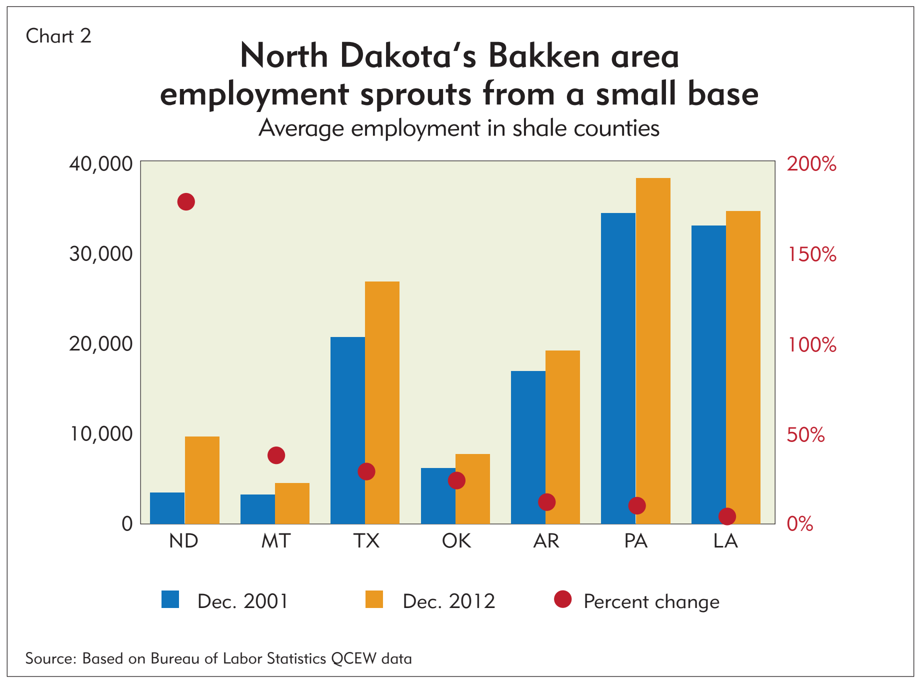
SHALE FORMATIONS	OIL (BILLION BARRELS)	GAS (TRILLION CUBIC FEET)	NATURAL GAS LIQUIDS (BILLION BARRELS)	ASSESSMENT YEAR
Bakken & Three Forks (MT, ND)	7.38	6.7	0.53	2013
Barnett (TX)	n.a.	26.2	1.05	2003
Marcellus & Utica (PA, OH, WV, NY, MD)	0.94	122.4	3.59	2011 & 2012
Eagle Ford (TX, LA)	0.85	51.9	2.04	2011
Fayetteville & Chattanooga (AR)	n.a.	14.9	0	2010
Woodford & Caney (OK)	0.39	29.7	0.26	2010
Haynesville & Bossier (TX, LA)	n.a.	65.9	0.05	2010
Permian Basin (TX, NM)	0.51	35.4	0.79	2007

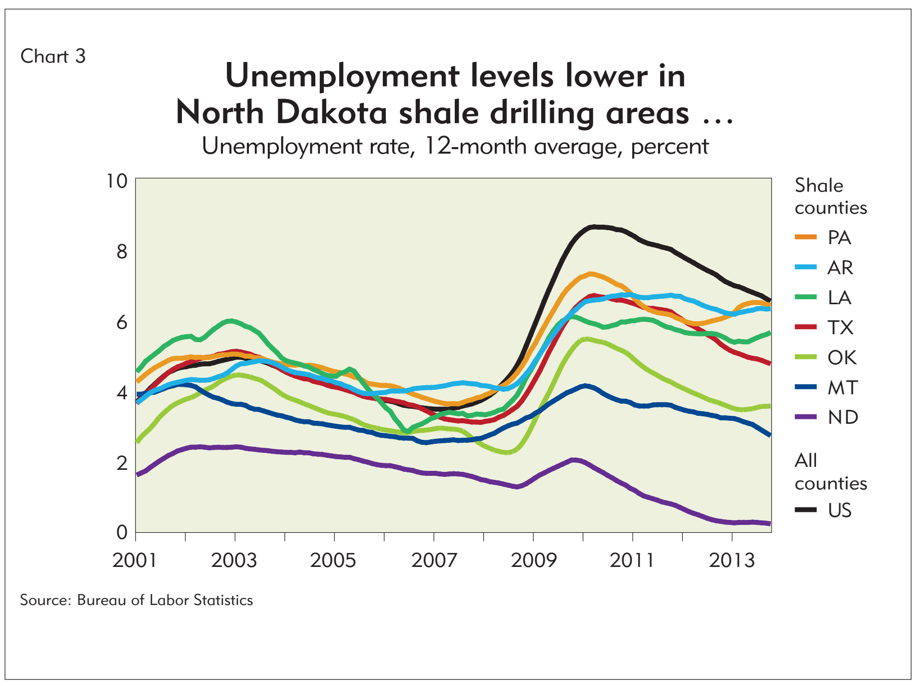
Source: U.S. Geological Survey

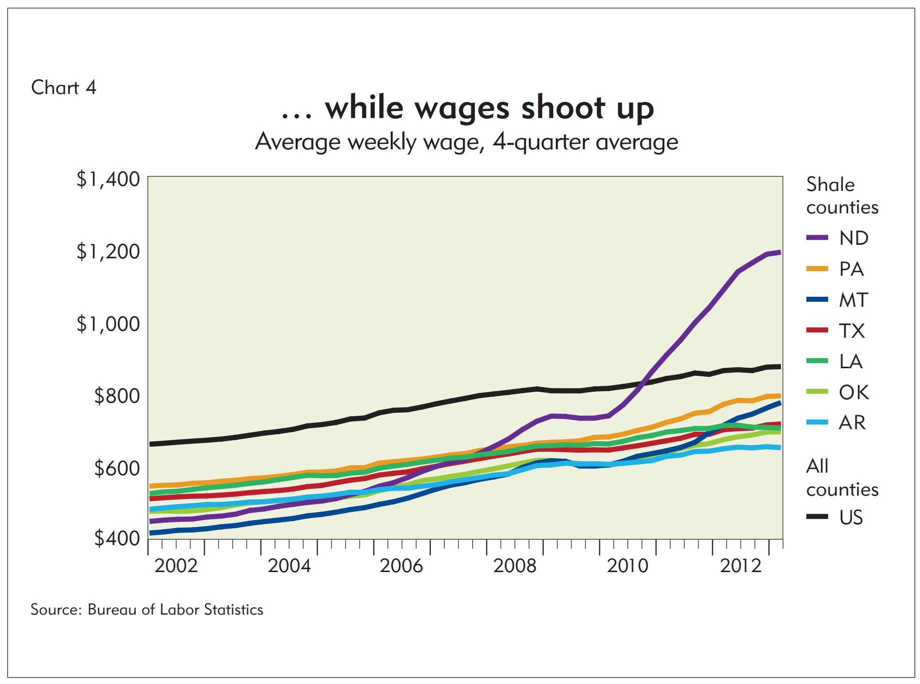


Shale area boundries are based on maps from USGS and Energy Information Administration.









Bakken comparison from page 13

Oklahoma with established oil and gas activity, North Dakota and Montana started from a small oil and gas infrastructure base. In concert with the increase in drilling rigs, North Dakota and Montana had to build new pipelines, rail facilities, roads and municipal infrastructure in sparsely populated areas. The Bakken boom led to strong gains not only in oil field jobs, but also in construction, trucking and service jobs.

North Dakota also had the greatest percentage change in total employment across all sectors relative to shale counties in other states (see Chart 2, and see box on page 15 for how shale counties are selected). Average employment in North Dakota shale counties almost tripled from about 3,000 in 2001 to 8,500 in 2012. Job growth in other shale areas was below 40 percent. Despite this strong growth, the average employment in shale counties in North Dakota remains smaller than the average employment in shale counties in most other shale areas

A much larger share of Bakken employment has been in natural resources and mining than in other shale areas. In 2012, just over a quarter of all workers in North Dakota's shale counties were employed in this sector, most of them in oil and gas, which pays about three times the national average weekly wage. In comparison, the mining and natural resources employment share in other shale areas was about 5 percent.

As demand for labor picked up in the Bakken, the August 2013 unemployment rate dropped to 1.2 percent and 3.8 percent, respectively, in the North Dakota and Montana portions of the Bakken. While unemployment rates fell in other shale areas, none dropped as low as in the Bakken (see Chart 3). In a few areas, such as Pennsylvania, Arkansas and Louisiana, unemployment rates didn't drop as much as the national unemployment rate dropped since 2009.

As labor markets tightened in the Bakken and relatively high-paying oilfield jobs grabbed a larger share of workers, average weekly earnings rose steeply compared with the national average and the average in other shale areas. In fourth quarter 2012, average weekly wages across all sectors reached $1,300 in the shale areas of North Dakota, higher than the national average of $950 and much higher than in other shale areas.

In fact, other than in Montana and somewhat in Pennsylvania, average weekly wages in other shale areas didn't manage to close much of the wage gap with the national average (see Chart 4). This is because oil shale regions tend to be more rural (where wages are lower), and the share of jobs in the high-paying oil and gas sector remained low.

Comparing Bakken with Eagle Ford

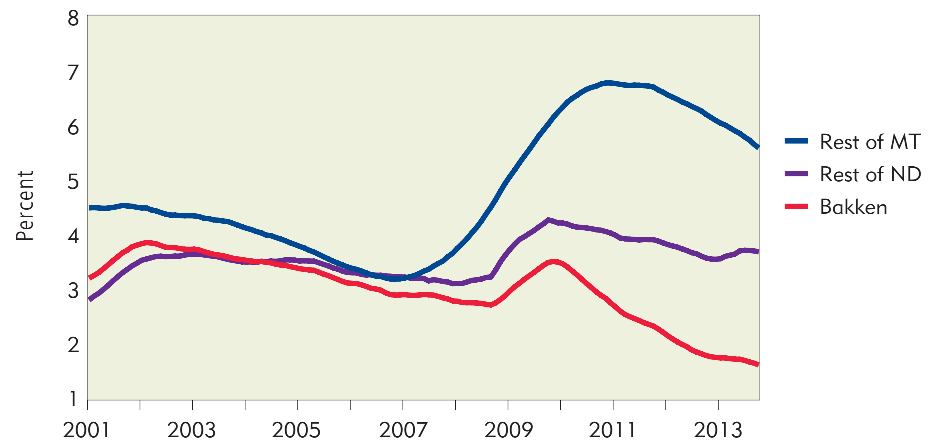
While the Bakken has received much attention from news media and other observers of the oil and gas sector, the Eagle Ford formation in Texas has also caught plenty of interest. Unlike many other shale areas that have relatively high concentrations of natural gas, the Bakken and Eagle Ford formations both have relatively large oil prospects. How do these two areas compare in terms of oil production and economic activity?

While the USGS estimates a relatively modest reserve of oil in the Eagle Ford formation, the Energy Information Administration expects as much as 6 billion barrels of oil production from the Eagle Ford from 2012 through 2040 compared with over 8 billion barrels from the Bakken. According to the Railroad Commission of Texas, in the first half of 2013, Eagle Ford's oil production averaged about 600,000 barrels per day. In comparison, the Bakken's oil production as of June 2013 exceeded 800,000 barrels per day.

Despite similar oil production levels and promising prospects, from January 2008 to March 2013, the Bakken (including North Dakota and Montana counties) has seen more job growth than the Eagle Ford (47,000 versus 21,000) and a stronger rate of job growth (112 percent compared with 9 percent). The Bakken also enjoyed a lower unemployment rate (1.6 percent versus 6.5 percent as of August 2013) and a higher share of jobs in the natural resources and mining in-

Chart 5

Unemployment rate in the Bakken much lower than the rest of ND and MT



Source: Bureau of Labor Statistics

dustry than the Eagle Ford (27 percent versus 7 percent). This advantage helped boost average wages in the Bakken. Average weekly wages since first quarter 2008 increased by $590 (88 percent) in the Bakken compared with $115 (20 percent) in the Eagle Ford.

Finally, and probably not surprisingly, there are distinct contrasts between the Bakken and the rest of North Dakota and Montana in employment growth, unemployment rates and average weekly wages. For example, the unemployment rate in the Bakken has dropped lower than the rate in the rest of North Dakota and much lower than the rate in the rest of Montana (see Chart 5).

Similar comparisons are available at the Bakken Oil Boom site online (at minneapolisfed.org) for shale areas in other states. In most instances, the unemployment rate and average weekly wages in these shale counties move in a pattern similar to the rest of the counties in their states. While employment growth in the shale areas tends to be stronger than in the rest of their states, the difference in growth between the shale areas and the rest of their states is smaller than in the Bakken. Not only does the Bakken have better economic performance than other shale areas, its economic performance stands out in sharper contrast with the rest of its states' counties than other shale areas. f

Data collection and analysis methods

References to the Bakken area include the Three Forks formation, which in large part is just underneath the Bakken formation. The Minneapolis Fed defines the Bakken area as nine counties in western North Dakota and three counties in Montana using quantitative and qualitative criteria (see minneapolisfed.org for more information).

This *fedgazette* analysis uses the general approach of Erik Gilje (Boston College) in his 2012 working paper "Does Local Access to Finance Matter? Evidence from U.S. Oil and Natural Gas Shale Booms" to identify shale counties. A county is considered a "shale county" when the area had at least 100 horizontal wells in 2011. Almost all the Bakken counties have over 100 horizontal wells; therefore, 100 is used as a benchmark for selecting counties in other shale areas. Virtually all the counties are within the boundries of current "shale play" as mapped by the Energy Information Administration. Using this definition, shale counties as a percentage of total counties in each state range from 5 percent to 17 percent.

In making the Bakken versus Eagle Ford comparison, the Railroad Commision of Texas' demarcation of Eagle Ford—24 counties in the southern part of the state—is used to define the Eagle Ford area, not horizontal drilling.

Number of shale counties in each state

Arkansas	5 out of 75
Louisianna	6 out of 64
Montana	3 out of 56
North Dakota	9 out of 53
Oklahoma	9 out of 77
Pennsylvania	6 out of 67
Texas	31 out of 254
Total	**69 out of 701**

Ninth District economy expected to grow moderately in 2014

By ROB GRUNEWALD
Economist

JOSEPH MAHON
Economist

The sky will continue to clear in the Ninth District in 2014, as the economy is expected to grow moderately. The sun will shine brightest on North Dakota, where a boom continues in oil and gas drilling and production.

According to the Minneapolis Fed's most recent business outlook poll, respondents' outlooks for their communities are the most optimistic since before the Great Recession. (See page 18.) Moreover, the Minneapolis Fed's economic forecast models indicate moderate employment and income growth in 2014. (See page 19.)

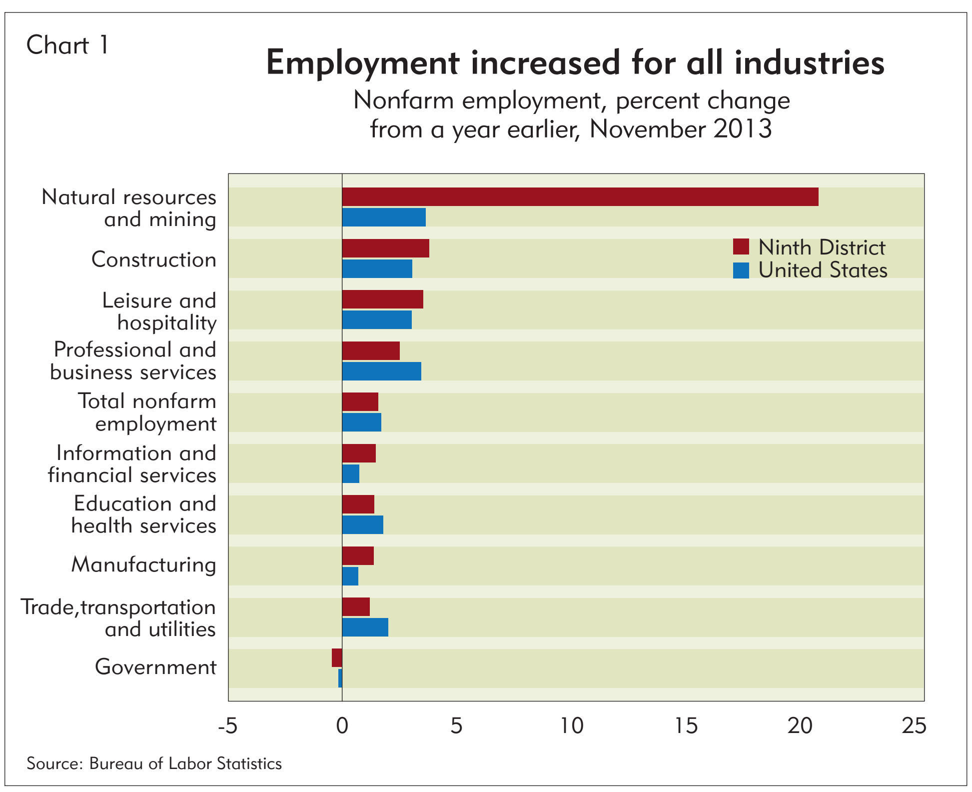
Employment posted broad gains

November nonfarm employment increased in all sectors except for a slight decrease in government employment compared with a year ago (see Chart 1). District employment growth was essentially the same as the nation's (1.6 percent and 1.7 percent, respectively).

The strongest gains were in natural resources and mining (21 percent). This sector includes brisk employment growth in oil and gas production in western North Dakota and eastern Montana. In September, this region produced almost 28 million barrels of oil, up 29 percent from a year earlier. The number of active drilling rigs in the area is down somewhat from a year earlier, but drilling and production activity remain at high levels. In addition to employment growth from oil and gas exploration in North Dakota and Montana, natural resources and mining employment also posted increases in Minnesota and Wisconsin. Nevertheless, natural resources and mining is a relatively small sector in the district, representing less than 1 percent of total employment.

Outside of natural resources, the fastest growth was in construction (3.8 percent), leisure and hospitality (3.5 percent) and professional business services (2.5 percent). Government employment decreased slightly (-0.4 percent), which continues a trend of softer employment levels in the sector. Since November 2010, government has shed 14,600 jobs in district states—cuts that were initially delayed during the recession by federal fiscal stimulus and compounded by federal sequestration that started last March. Congress recently passed a two-year federal budget that curtails some of the sequestration spending cuts.

Results of the Minneapolis Fed's forecasting models indicate that employment will grow modestly in 2014 at rates slightly below historical averages (1980 to 2012), except in North Dakota, where employment is expected to grow 4.5 percent. More respondents to both the business outlook poll and the manufacturing survey expect increases in employment at their companies than expect decreases.



Unemployment rates continue to drop

Unemployment rates have dropped across all district states since the end of the recession (see Chart 2). In November, the unemployment rate in North Dakota decreased to 2.6 percent, the lowest in the nation. Unemployment rates are forecast to continue their downward trend during 2014 and will finish the year below each respective state's historical averages, except for Wisconsin, which will remain above its historical average.

With unemployment rates coming down and employment picking up, business leaders are reporting more difficulty finding qualified workers than in the past few years. During the recession and shortly thereafter, business owners frequently reported receiving plenty of qualified applicants in response to job postings. According to the business outlook poll, 57 percent of respondents said that securing workers was a challenge or a serious challenge, up from 39 percent of respondents in last year's poll and only 14 percent in the 2010 poll.

However, businesses are not generally raising wages much in order to attract workers, nor are businesses broadly expecting to offer substantial wage increases in 2014. Some exceptions are noted, such as relatively high wage offerings in the oil and gas region of North Dakota and Montana, but even the rapid increase in wages there has eased somewhat.

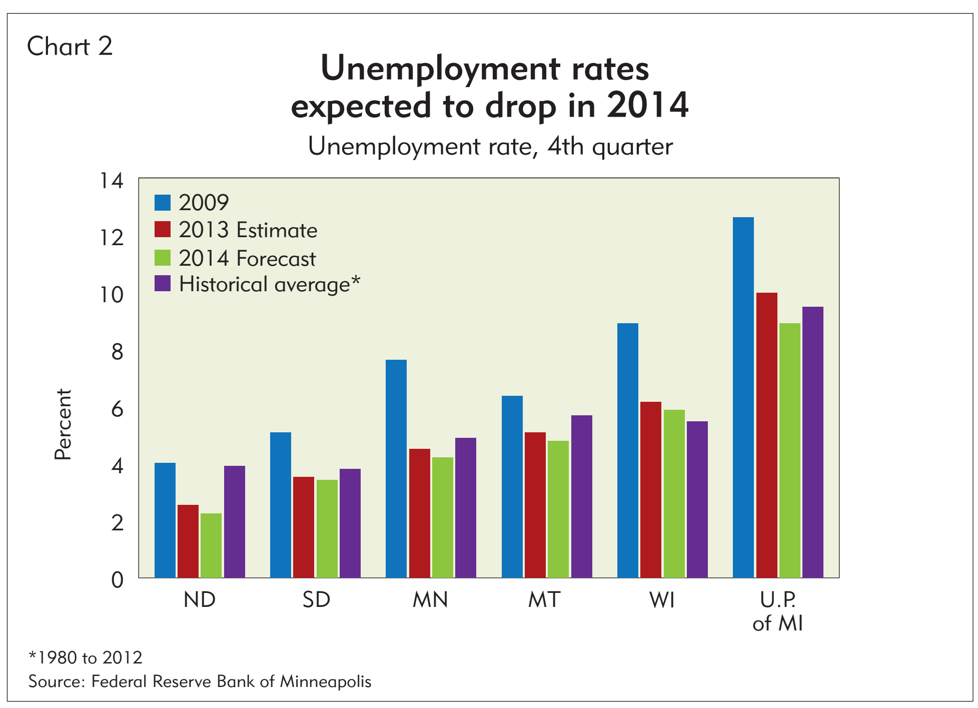
In manufacturing, wages in district states increased 2.4 percent during the three-month period ended in November compared with the same period a year ago. The strongest manufacturing wage gains were reported for North Dakota, which increased 3.4 percent, while manufacturing wages decreased 1.9 percent in Montana. According to the business outlook poll, 93 percent of respondents expect wages and salaries in their communities to increase 3 percent or less in 2014, the same percentage as last year.

While wage increases have been moderate, so have overall price increases. From a national perspective, in November the personal consumption expenditure price index was up 0.9 percent from a year earlier. In the district, a somewhat larger share of respondents to the business outlook poll and survey of manufacturers expect to increase prices for their own products and services in 2014 compared with the previous year.

Home sales and construction continue to recover

Residential real estate markets continue to recover with increases in home sales, prices and construction during 2013. In Minnesota, the number of closed sales increased 5 percent year-to-date through November compared with a year earlier. However, the pace of sales slowed during the last couple of months.

Home prices have posted gains in many areas of the district. During third quarter 2013, prices for sales of existing



Crop and hog prices expected to decrease, cattle and dairy to increase in 2014
Average farm prices

	2010/2011	2011/2012	Estimated 2012/2013	Projected 2013/2014
(CURRENT $ PER BUSHEL)				
Corn	5.18	6.22	6.89	4.05-4.75
Soybean	11.30	12.50	14.40	11.50-13.50
Wheat	5.70	7.24	7.77	6.65-7.15

	2011	2012	Estimated 2013	Projected 2014
(CURRENT $ PER CWT)				
All milk	20.14	18.53	19.90-20.00	19.70-20.50
Steers	114.73	122.86	125.82	128.00-137.00
Hogs	66.11	60.88	64.40	59.00-63.00

Source: U.S. Department of Agriculture, estimates as of December 2013

homes increased 15 percent in Minneapolis, 12 percent in Bismarck, N.D., 5 percent in Fargo, N.D., and 4 percent in Sioux Falls, S.D.

Home building has also taken off during the past two years, with housing units authorized increasing 50 percent in 2012 and 19 percent in district states through November 2013 compared with the same period a year earlier. Authorization levels are the highest since the start of the recession, but are still far behind annual levels recorded from the early 1990s to 2007.

The manufacturing sector also expanded during 2013, with gains recorded throughout the year in Minnesota and the Dakotas, according to a survey of purchasing managers by Creighton University (Omaha, Neb.). However, manufacturing was slowed somewhat by soft growth in manufactured exports; through October 2013, levels were about the same as a year earlier. Exports to Europe and China grew modestly during the first 10 months of 2013 after decreasing the previous year; however, exports to the district's largest trading partner, Canada, decreased slightly. One likely factor is the exchange rate; during 2013, the U.S. dollar strengthened about 8 percent against the Canadian dollar, making district exports relatively more expensive in Canada.

Consumer spending grows moderately

Increased employment, gains in home prices and growth in equity prices have generally helped improve household balance sheets. National consumer confidence measures have continued to recover from the recession. The increase in confidence coincided with improved economic news on consumer and business spending.

Prior to the holiday sales season, respondents to a survey of holiday shoppers in the Minneapolis-St. Paul area by the University of St. Thomas indicated that spending per household would increase by about 8 percent over 2012. Retailers in the district have generally reported moderate gains in holiday sales. In 2014, personal income in all district states is expected to grow faster than in 2013, according to the Minneapolis Fed's forecasting models, a positive sign for consumer spending. However, respondents to the business outlook poll and the survey of manufacturers expect only slight gains in consumer spending for their communities and states in 2014.

Tough weather, falling prices weigh on farmers

Going into 2013, farmers were hoping for a happy medium. After pervasive flooding around the district in 2011 and severe drought in 2012, a normal weather year would have been welcomed. Instead, farmers got both extremes—heavy rains in the spring delayed and even canceled planting for some producers, then the water abruptly shut off in midsummer, leading to drought conditions in many areas by harvest time. But by the end of the growing season, the toll was mixed across the region. Total district corn production increased 9 percent. In contrast, production fell in the district for wheat (down 13 percent), soybeans (6 percent), sugar beets (10 percent) and dry beans (36 percent).

Crop prices, however, unmistakably took a turn for the worse for farmers, and forecasts indicate that prices are expected to continue to fall in 2014. Coming on top of several years of strong prices, the 2012 drought pushed crop prices higher in late 2012 and early 2013 (see table). But over 2013, that effect faded, and once it was clear that states outside the district would get better weather and see stronger production this year, crop prices fell. Though corn production rose across the district, higher production in South Dakota and Wisconsin was largely due to poor, drought-ravaged production in 2012.

The story has been the reverse for animal product producers, who were hampered in 2012 by higher crop input prices and a slight decline in meat and dairy prices. While the cost of feed fell for them in 2013, they saw their output prices for cattle, hogs and dairy all increase, pushing up profit margins.

According to the Minneapolis Fed's third-quarter (October 2013) agricultural credit conditions survey, 2013 was a moderate year for agricultural income, with over half of respondents reporting steady income, while more reported decreased incomes (28 percent) than increased (16 percent). Capital investment behaved similarly, while farm household spending mostly increased or was flat, with only 6 percent of lenders reporting decreases. Agricultural lenders are somewhat pessimistic for farm earnings in the final quarter of 2013, with 48 percent expecting income to fall and only 16 percent expecting it to rise.

The outlook for 2014 is for these trends to continue. According to U.S. Department of Agriculture forecasts, prices for corn, soybeans, wheat and hogs are expected to decrease, while milk and cattle prices should continue to climb. However, if history has taught us anything, it's that agriculture is full of surprises.

Manufacturing activity grew in 2013; more companies expect growth in 2014

By TOBIAS MADDEN
Regional Economist

The multiyear manufacturing expansion dating back to 2010 is expected to continue in 2014, according to a November survey of manufacturers conducted by the Federal Reserve Bank of Minneapolis and the Minnesota Department of Employment and Economic Development.

Manufacturers reported increased activity but decreased profits in 2013. Orders were up for 45 percent of survey respondents and down for 29 percent. Over a third reported increased employment, while 23 percent reported reduced staffing. Manufacturers also reported higher prices and productivity, but 38 percent experienced lower profits (31 percent reported higher profits). The largest shares of firms that reported growth in 2013 were in Wisconsin and North Dakota. A higher proportion of smaller firms reported growth in activity compared with large and medium-sized firms. Wages and benefits grew about 2.4 percent.

More manufacturers across the district expect growth in 2014. Orders, total production and exports are expected to increase. Companies are expecting more capital investment, productivity and profits, as well as higher selling prices.

Almost a third of respondents expect manufacturing employment to grow in 2014, while 14 percent expect job cuts. Wages are expected to increase by 2.2 percent, while benefits are expected to increase by 2.5 percent. Based on numerous comments, the Affordable Care Act (ACA) may be affecting benefits costs and business decisions. Twelve percent of respondents indicated that their company plans to shift to more part-time workers over the next two years on top of the 13 percent who said they have already shifted as a result of the ACA.

This industry optimism spills into a positive outlook many have for their state economies. More respondents than not expect increases in state economic growth, employment, business investment and consumer spending. However, overall corporate profits are expected to be flat. Inflation is also a concern, as 56 expect higher inflation, while only 1 percent foresee lower inflation.

Business leaders expect increased economic growth in 2014

By TOBIAS MADDEN
Regional Economist

"I am generally optimistic about economic prospects," commented a Minnesota utility respondent to the *fedgazette*'s annual business conditions poll of 321 business leaders conducted in November. Optimism is at a seven-year high as the Ninth District economy picks up steam.

Business leaders across the Ninth District are optimistic for their local economies. This optimism stems from expectations of increased sales and investment for their own companies in 2014. Firms also expect to raise prices and increase wages. More broadly, business leaders believe that housing starts, business investment and employment will rise in their local communities. They also see slightly higher inflation and moderate growth at the national level. Tempering this optimism are concerns about regulation, hiring, obtaining workers and health care.

Companies expect continued growth in 2014

Respondents were upbeat regarding future sales and employment (see Chart 1). More retailers and manufacturers expect gains in sales than other industry sectors. In addition, 48 percent of all respondents anticipate raising prices in 2014, compared with 17 percent who see their prices dropping. Almost half of retailers expect to increase prices, but 41 percent of agricultural producers envision declines in commodities prices.

Almost 70 percent of business leaders also saw higher productivity last year, a trend that should continue, as overall capital investment is expected to increase. However, capital spending plans are mixed across sectors as manufacturing and other financial firms plan to increase capital investment, while agricultural producers plan decreased investment. The boom in the oil areas may also be a factor in capital investment. "Oil and gas investments are red hot," commented a North Dakota respondent.

Meanwhile, more respondents expect their firms to increase hiring full-time employees than decrease. This is evident among all industry sectors, but varies across geographic areas. Firms from Montana and the Dakotas have the highest indication of positive hiring, while respondents from the Upper Peninsula of Michigan and greater Minnesota expect decreases in hiring.

Respondents indicated that they may have an easier time financing capital expenditures because more are reporting improved access to credit over the past three months. Seventeen percent of respondents indicated that access to bank credit has improved some or improved a lot versus 7 percent who noted deteriorating conditions. This improvement occurred across almost all industry sectors and throughout the district.

District businesses face some challenges. More than three-quarters of the respondents said that complying with government regulation was a challenge or serious challenge. In addition, 57 percent said that securing workers was a challenge. This labor concern varied across the district, with a high of 83 percent of the respondents from North Dakota and a low of 48 percent from the Minneapolis-St. Paul area reporting difficulty.

The Affordable Care Act is also a concern for businesses. A majority of respondents are considering sharing more of the insurance costs with employees. In addition, 11 percent said they already have shifted to more part-time workers, and 10 percent plan to shift to more part-time workers within the next two years.

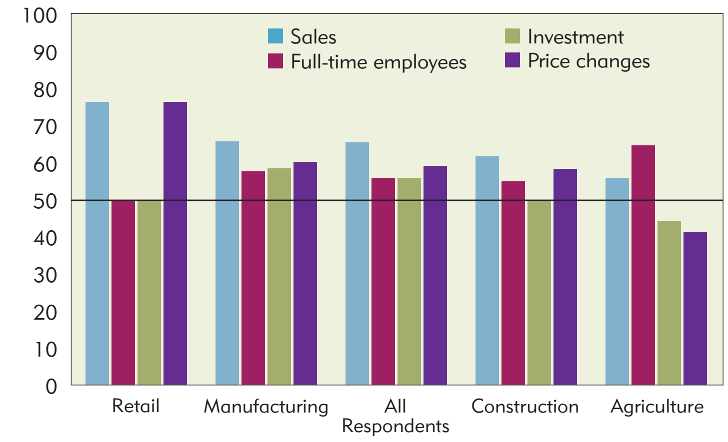
Moderate state, modest U.S. growth expected

Respondents' optimism about their state economies shot up compared with last year. Optimism is prevalent across the district and is strongest in Montana, the Dakotas and greater Minnesota (see Charts 2 and 3). "Due to the Bakken oilfield, our state and region are experiencing unprecedented prosperity," commented a North Dakota transportation respondent.

Respondents generally expect increased employment, business investment and consumer spending. Respondents from Montana and North

Chart 1

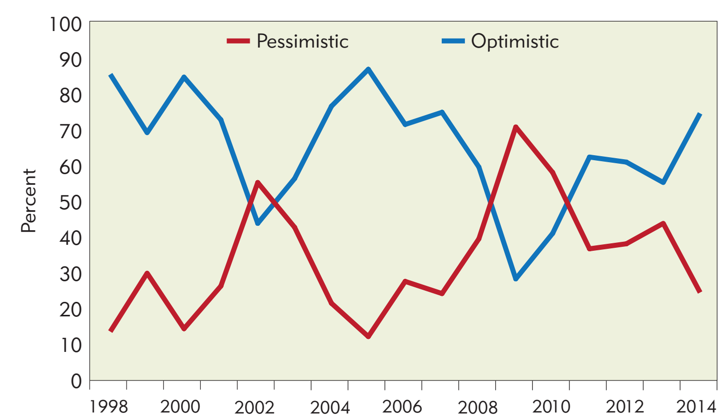
With regard to your own company, how do you see operations changing during the next year?*



*Above 50 indicates expansion; below 50 indicates contraction.
Source: Federal Reserve Bank of Minneapolis, annual business outlook poll

Chart 2

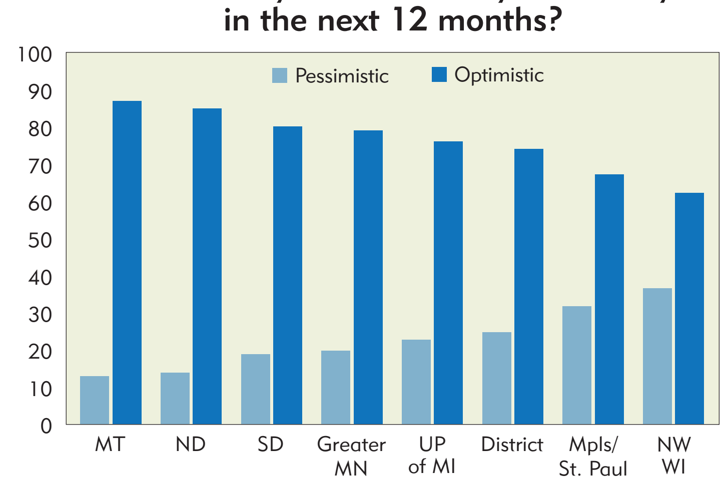
Overall, what is your outlook for your community's economy in the next 12 months?



Source: Federal Reserve Bank of Minneapolis, annual business outlook poll

Chart 3

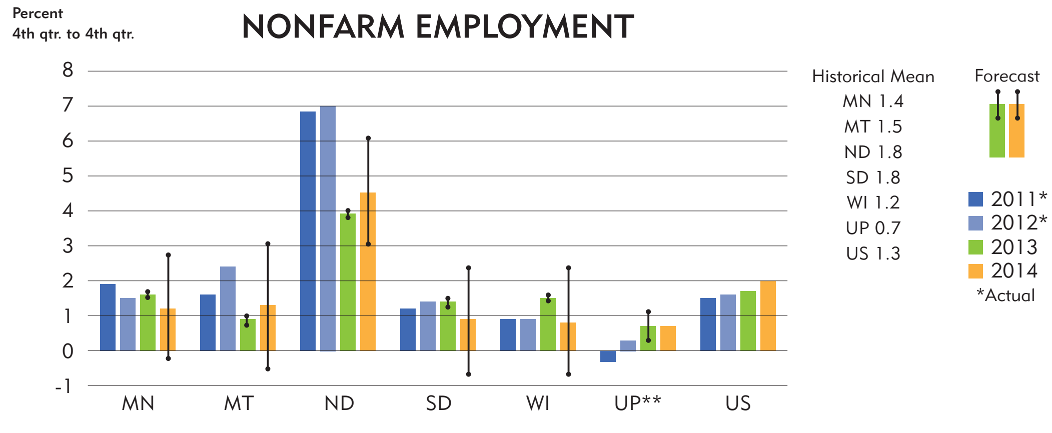
Overall, what is your outlook for your community's economy in the next 12 months?



Source: Federal Reserve Bank of Minneapolis, annual business outlook poll

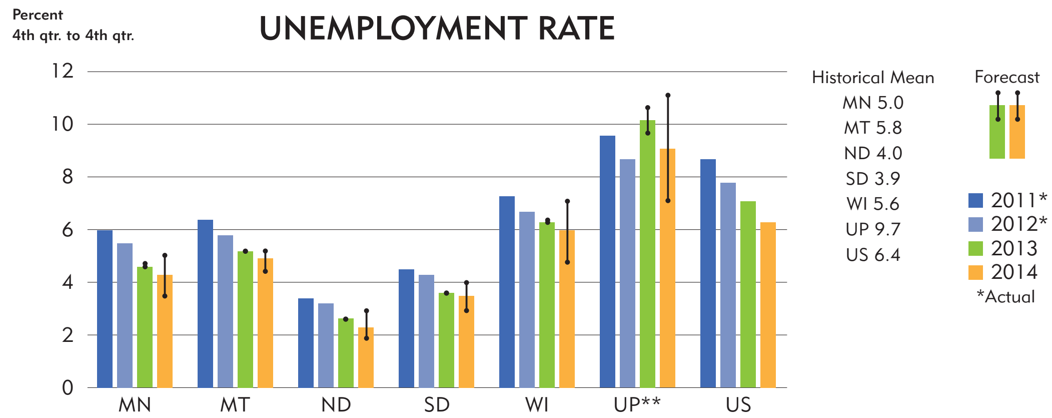
District forecast

Employment is predicted to increase moderately. In 2013, nonfarm employment grew in all areas of the district. Growth rates were above historical averages in Minnesota, North Dakota and Wisconsin. North Dakota posted the strongest growth at 3.9 percent. In 2014, nonfarm employment is expected to grow the same or somewhat slower than in 2013 in all areas except North Dakota and Montana. Growth rates are predicted to be lower than historical averages in all areas except North Dakota, which is expected to grow 4.5 percent, and the Upper Peninsula of Michigan, where employment is predicted to grow at its historical average of 0.7 percent.

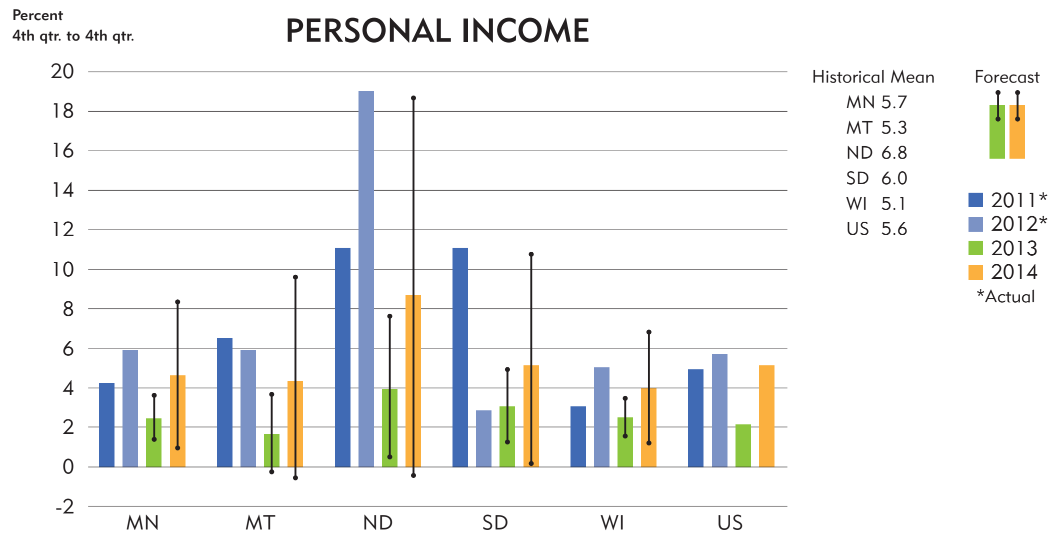


**Confidence interval for 2014 is -1.8 to 3.4.

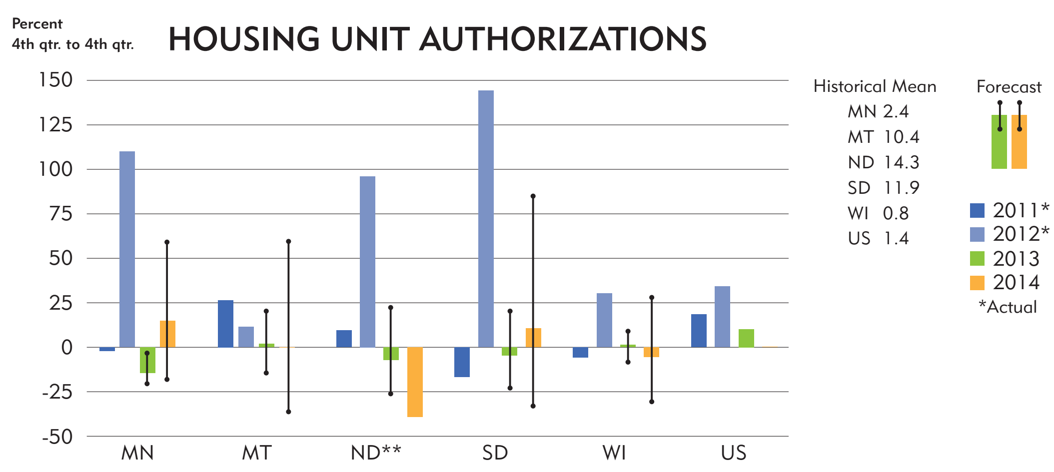
Unemployment rates are predicted to continue to decline. During 2013, unemployment rates decreased in all areas except the Upper Peninsula, where the unemployment rate increased. Unemployment rates were below historical averages in all areas except Wisconsin and the Upper Peninsula. In 2014, rates are predicted to drop in all areas and are expected to remain below historical averages except in Wisconsin. As of November, North Dakota had the lowest unemployment rate in the country, and its rate is predicted to drop further to 2.3 percent in 2014.



In 2014, personal income is predicted to grow faster than in 2013 in all district states, with North Dakota leading the way with an 8.8 percent gain. Part of this growth is due to sluggish personal income growth in 2013. Only South Dakota saw personal income grow faster in 2013 than in 2012, though North Dakota has been seeing persistently strong income growth in recent years.



The forecasting models are mixed regarding the housing forecast. Housing units authorized increased in 2013, but grew at a slower rate compared with strong gains in 2012. In 2014, housing units authorized are predicted to increase in Minnesota and South Dakota, remain level in Montana, and decrease in North Dakota and Wisconsin. However, the confidence intervals for home building predictions span a relatively wide range, indicating a much higher degree of uncertainty compared with forecasts for employment, unemployment rate and personal income.



**Confidence interval for 2014 is -67.3 to 11.4.

Dakota had the highest share of positive responses, while respondents from the U.P. expect a drop in consumer spending. All industry sectors were positive about their state economies; the strongest results come from the agriculture and retail sectors.

Statewide housing starts are expected to increase in 2014 compared with 2012 across the district. The only exception is the U.P., which expects flat activity. Respondents from most industry sectors were very optimistic about housing starts.

Wages are also expected to rise moderately, with 68 percent seeing 2 percent to 3 percent increases. Respondents from North Dakota anticipate much more robust wage increases; 31 percent see increases of 4 percent or more. Among industry sectors, construction expects the largest wage increases, and the finance and insurance sector the lowest.

Respondents imagine more modest economic growth at the national level. About a quarter expect 3 percent growth in GDP in 2014, and nearly two-thirds predict growth of around 2 percent. Inflation is somewhat of a concern, as 22 percent expect the consumer price index to increase by 4 percent or more, and 36 percent forecast inflation of around 3 percent. f

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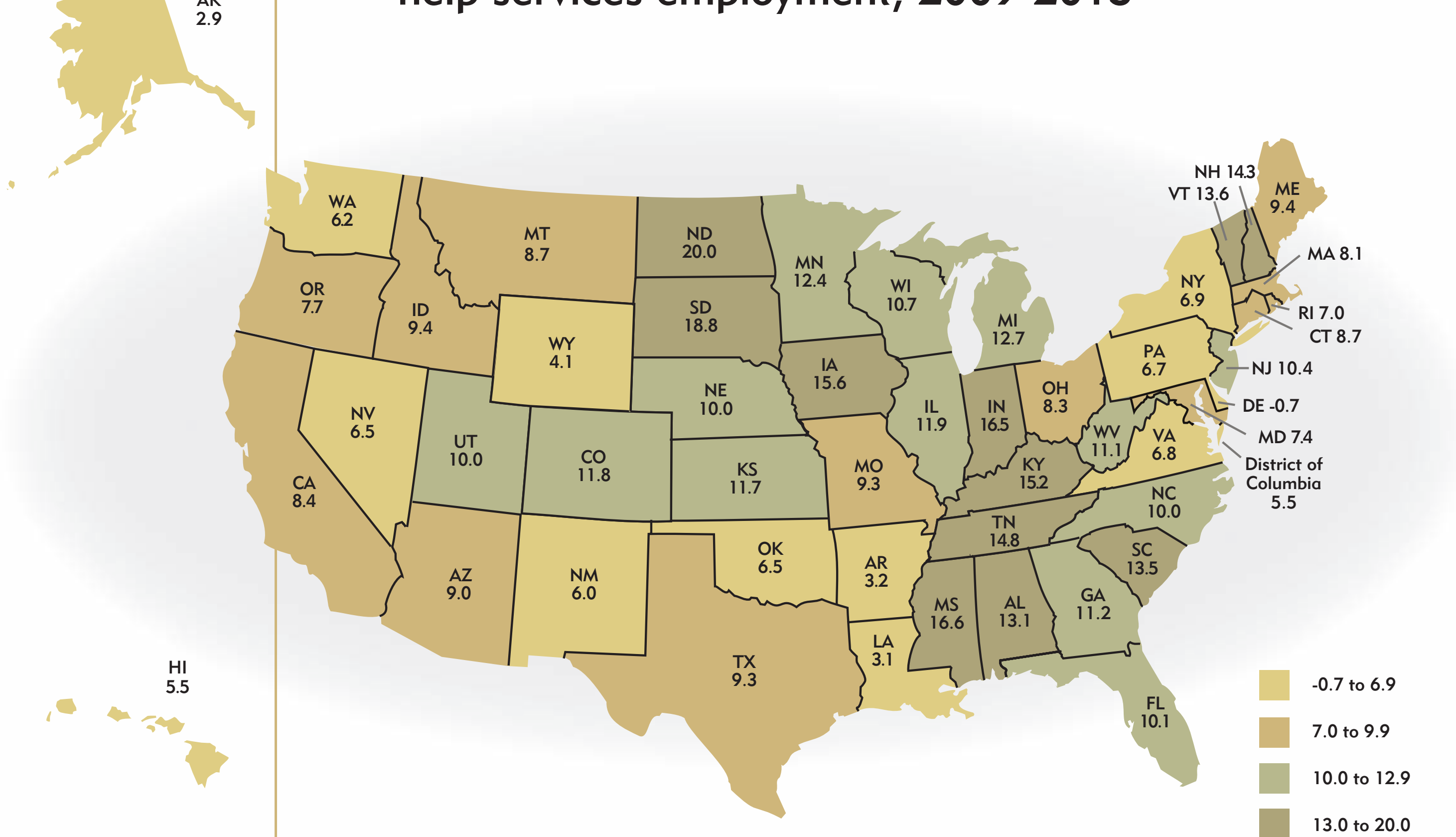
Temporary employment

January 2014

Average annual percent change in temporary help services employment, 2009-2013



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