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A Closer Look at Idaho's Financial Activities Sector in the Past Decade: Shift-Share Analysis

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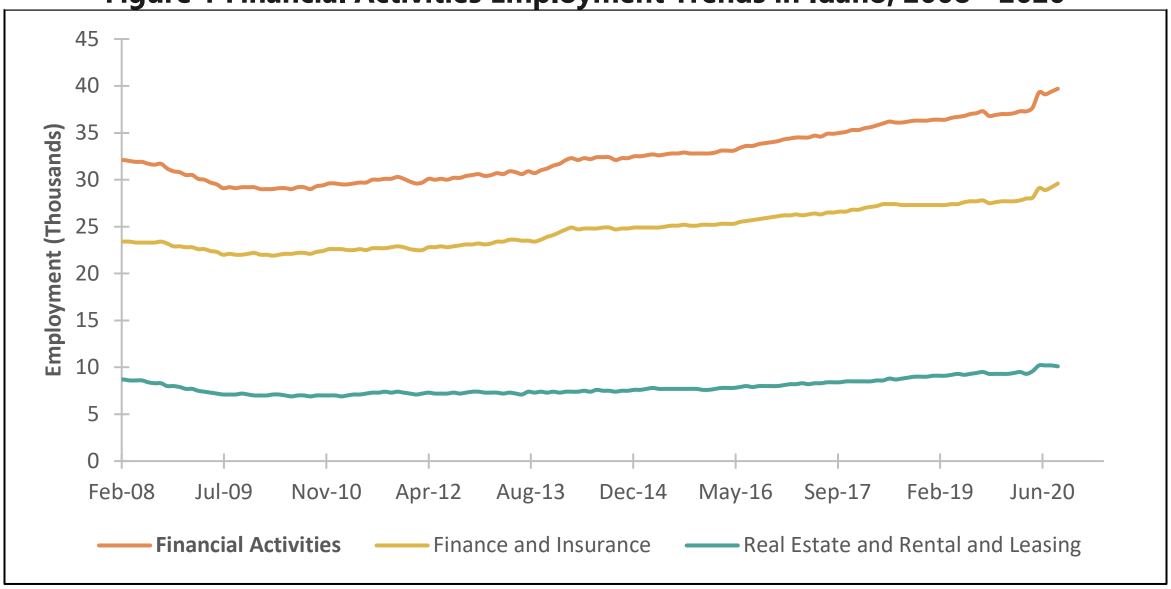
Economic slowdowns imposed by the COVID-19 pandemic-related restrictions have had a devasting impact on local economies around the nation. Before the initial impact of the pandemic was felt in Idaho, unemployment was estimated at 2.5%, the lowest level since the 2008 global financial crisis. Labor participation rate was on a steady growth streak at 64.3% in March. A wave of massive layoffs and business closures that unfolded in April contracted Idaho's total employment by 9.6%, from 872,658 to 788,816. Due to the nature of the pandemic restrictions and other confounding factors, the impact was not equally devasting across industries. Some industries in Idaho, such as financial activities and construction, continued to experience over-the-year employment growth, while others such as education and health services recorded high over-the-year employment decline. Despite these contradictory responses, Idaho's labor market has shown signs of recovery a few months following the pandemic peak employment shock.

Figure 1 Financial Activities Employment Trends in Idaho, 2008 - 2020



Employment in financial activities in Idaho between January and August 2020 increased by 6.8%, from 37,000 to 39,500 jobs, holding up much better than the nation which declined by 1.9 percent.

Why has Idaho's financial industry held up better than the nation during the pandemic recovery period? Is it possible that Idaho's momentum from previous years of robust employment growth provided a buffer from the impact of the pandemic? Taking a closer look at Idaho's financial activities industry between 2009 and 2019 will help to assess its competitiveness relative to the nation. Using a shift-share analysis isolates the effects of changing shares among industrial sectors.

Shift-share analysis (SSA) is a statistical technique that provides information about the characteristics of growth and competitiveness of local industries in an area compared with a larger reference area[1]. SSA will be helpful to decompose changes in Idaho's employment in the financial industry and identify its competitiveness relative to the nation. Thus, it can be determined whether Idaho's financial industry has experienced faster or slower rates of growth than the U.S. economy. This type of analysis looks at changes in the number of jobs in terms of industry structural changes, not just a general change in the total employment[2] by dividing an area's job growth into three contributing components – national growth effect, industrial mix effect and regional competitiveness effect.

National growth effect (NG) measures the share of local employment growth that can be attributed to growth of the national economy. This model assumes the regional economic structure is similar to the national economy and that the industries in a region will grow at approximately the rate of national industries unless the region has a comparative advantage or disadvantage[3]. The results of this component show how many of the newly created jobs can be attributed to national economic trends.

Industrial mix effect (IM) measures the differential growth due to the specific industry makeup of a region versus the nation. This component identifies the source of employment growth or decline in the industries that might be strongly weighted toward the slow- or fast-growing sectors[4]. A positive IM component would suggest the local economy has relatively more people employed in fast-growth sectors than the national average and therefore exhibits structural strength.

Regional competitiveness effect (RC) measures the difference between the actual change in employment and the change expected if each industrial sector grew at the national rate. The results of this component indicate whether the region under study is efficient (competitive) in securing a larger share of employment than its counterpart[5].

An important limitation to this approach, however, is that it does not provide insights into why firms in specific industries have a competitive advantage / disadvantage compared with the nation[6]. An in-depth analysis of the region's firms and industry data would be needed to get such insight.

A summary of changes in employment in Idaho's financial activities sector versus the nation is shown in Table 3-1. The total civilian labor force in Idaho increased by 16% between 2009 and 2019, while the United States only saw a 6% increase. Idaho also experienced significant growth of 23% in financial activities employment during that same year, which translated to a gain of more than 6,500 jobs. While the nation's financial activities employment growth has been largely driven more by expansions in real estate industries than in insurance industries, the opposite is true for Idaho. Finance and insurance jobs in Idaho have increased by 24% compared with 18% in real estate, rental and leasing. All of Idaho's financial activities subsectors (3-digit NAICS*) have experienced positive employment growth. Of these, securities, commodity contracts and other financial investments and related activities experienced the largest employment growth of 71% – about 1,100 jobs. The U.S. employment in the funds, trusts and other financial vehicles subsector experienced an 81% decline – about 70,000 jobs – since the last global recession. This is not surprising given the severity and enduring impact of the recession in this industry[7]. This subsector was not affected in Idaho, perhaps owing to its relatively small employment size.

These findings indicate Idaho has experienced more growth in the financial activities sector than the United States, suggesting Idaho had a growth advantage over the nation pre-pandemic. However, it is important to isolate the effects of changing shares among industry sectors to ensure robustness of these findings.

Table 3-1
Employment Growth Rates in Financial Activities Industry
in Idaho and the United States, 2009 - 2019

NAICS*	Sectors/Subsectors	ID Growth Rate (%)	U.S. Growth Rate (%)
	Total Labor Force	**16.4%**	**5.9%**
	Total Employment	**23.9%**	**12.6%**
	Financial Activities	22.8%	12.0%
52	Finance and Insurance	24.4%	10.6%
53	Real Estate and Rental and Leasing	18.1%	16.0%
52	**Finance and Insurance**		
522	Credit Intermediation and Related Activities	7.6%	(6.1%)
523	Securities, Commodity Contracts and Other Financial Investments and Related Activities	71.2%	2.2%
524	Insurance Carriers and Related Activities	39.0%	16.7%
525	Funds, Trusts and Other Financial Vehicles	0%	80.9%
53	**Real Estate and Rental and Leasing**		
531	Real Estate	25.4%	20.2%
532	Rental and Leasing Services	0.7%	6.2%
533	Lessors of Nonfinancial Intangible Assets (except Copyrighted Works)	23.1%	(10.9%)

Table 3-2 presents the shift-share analysis results for Idaho between 2009 and 2019. Idaho's financial activities' national growth effect is positive in all sectors and subsectors. Thus, if Idaho's economy was identical to the national economy, then financial sector jobs in the state should have grown by 4,172 between 2009 and 2019. However, the data shows that Idaho added 6,486 jobs during this period. This suggests Idaho was performing better than the national average. A closer look into the subsectors shows that finance and insurance have had a higher contribution to the financial activities sector compared to real estate.

Over the past decade, Idaho's financial activities' industrial mix component was negative. This implies the financial activities sector grew at a relatively slower rate than the national average, resulting in 759 fewer jobs. This is because Idaho's employment in this sector is highly concentrated in credit intermediation and related activities, relative to the nation. This concentration in a slow-growth subsector diminished the positive effect of faster-growing subsectors like insurance carriers and related activities.

Finally, the results show the financial activities sector has a strong competitive advantage in the economic growth of the state. This sector has created a larger share of employment growth – about 3,700 jobs – than other areas in the nation. The state has a competitive advantage in all subsectors under financial activities except in lessors of nonfinancial intangible assets (companies that broker/lease patents and trademarks). The results also indicate a greater share of the sector's effectiveness can be attributed to the insurance carriers and related activities group.

Table 3-2
Shift Share Analysis of Idaho's Financial Activities Industry, 2009 – 2019

NAICS	Sectors/Subsectors	National Growth (NG)	Industrial Mix (IM)	Competitive Effect (RC)	Total Job Gain/Loss
	Financial Activities	**4,172**	**(759)**	**3,073**	**6,486**
52	Finance and Insurance	3,082	(862)	2,919	5,139
53	Real Estate and Rental and Leasing	1,090	103	154	1,347
52	**Finance and Insurance**				
522	Credit Intermediation and Related Activities	1,636	(1,388)	595	843
523	Securities, Commodity Contracts, and Other Financial Investments and Related Activities	227	32	845	1,104
524	Insurance Carriers and Related Activities	1,202	556	1,441	3,199
525	Funds, Trusts and Other Financial Vehicles	15	(96)	81	0
53	**Real Estate and Rental and Leasing**				
531	Real Estate	759	288	270	1317
532	Rental and Leasing Services	322	(186)	(121)	15
533	Lessors of Nonfinancial Intangible Assets (except Copyrighted Works)	10	(17)	22	15

This analysis shows employment growth in the financial activities sector can be attributed to its competitive advantage, which is weighted heavily in the finance and insurance industries rather than in real estate, rental and leasing industries. The results also suggest Idaho's financial activities sector has a structural weakness since a greater share of employment is based in slow-growing subsectors like credit intermediation.

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*North American Industry Classification System