

Research



Update: 2015 Local Minimum Wage Increases and Restaurant Employment Trends

BEN GITIS | MARCH 16, 2016

In a number major cities, policymakers and labor advocates have successfully enacted laws that mandate large raises in the minimum wage. In 2015, several cities began to implement these minimum wage increases. These cities include San Francisco and Seattle, both of which are currently phasing in \$15 per hour minimum wages. Towards the end of last year, AAF examined restaurant employment growth in each of the major metropolitan areas where a minimum wage increased. Now that we have a complete year of data, we take another look at these cities. The facts continue to show that in 2015, restaurant employment in the major metropolitan areas with minimum wage increases suffered. Not only did restaurant employment grow slower in these metropolitan areas than in the rest of their states, but the growth rates decelerated from last year in the metropolitan areas while in the rest of their states they accelerated. This indicates that despite accelerating restaurant job growth in the states where these metropolitan areas are located, restaurant employment growth in the metropolitan areas still suffered.

2015 MAJOR CITIES WITH MINIMUM WAGE INCREASES

In 2015 seven major U.S. cities implemented minimum wage increases: Chicago, Louisville, Seattle, Washington, Oakland, San Francisco, and San Jose. These minimum wage increases are detailed in Table 1.

Table 1: Major City Minimum Wage Increases in 2015

City	Previous Minimum Wage	Current Minimum Wage	Date Effective	Minimum Wage Law
Chicago, IL	\$8.25	\$10.00	7/1/2015	\$13 by 2019
Louisville, KY	\$7.25	\$7.75	7/1/2015	\$9 by 2017
Seattle, WA	\$9.47	\$11.00	4/1/2015	\$15 by 2018/2021
Washington, DC	\$9.50	\$10.50	7/1/2015	\$11.50 by 2016
<i>San Francisco Bay Area</i>				
Oakland, CA	\$9.00	\$12.25	3/2/2015	\$12.55 by 2016

City	Previous Minimum Wage	Current Minimum Wage	Date Effective	Minimum Wage Law
San Francisco, CA	\$11.05	\$12.25	5/1/2015	\$15 by 2018
San Jose, CA	\$10.15	\$10.30	1/1/2015	Inflation Adjustment

Most of these minimum wage increases were the beginning of much larger minimum wage hikes. For instance, San Francisco’s and Seattle’s minimum wage increases were the first steps to increasing the cities’ minimum wages to \$15 per hour. In other cities, the minimum wage implementation was much further along. San Jose raised its minimum wage from \$8 to \$10 in 2014. Since then, the minimum wage in San Jose continues to rise with inflation. In 2015, it increased by only 15 cents from \$10.15 to \$10.30. Overall, the San Francisco Bay Area has been full of cities implementing substantial minimum wage increases. Besides San Francisco and San Jose, the cities in the Bay Area that are phasing in minimum wage hikes are Berkeley, Emeryville, Mountain View, Oakland, Sunnyvale, and Richmond.

WHY EVALUATE RESTAURANT EMPLOYMENT?

We continue to [stress](#) that when evaluating the impact of the minimum wage, it is necessary to ask the right question. In particular, evaluating the effect of the minimum wage on total employment trends would generally yield irrelevant results because only about [2 percent](#) of all wage and salary workers earn at or below the federal minimum wage. It is very unlikely that a minimum wage increase would affect the majority of workers who earn significantly above the minimum wage. As a result, any analysis that examines the entire workforce is likely to miss the labor market consequences for those who would actually be impacted by a minimum wage hike because the vast majority of workers do not earn low wages.

Thus, in order to fairly examine the labor market consequences of increasing the minimum wage, it is essential to examine low-wage workers who actually earn at or slightly above the current minimum wage. This includes young, low-skilled workers, the exact population policymakers are trying to help by increasing the minimum wage. One way to zero in on the low-wage population is to examine recent job growth trends in an industry that actually employs low-wage workers. This paper examines 2015 job growth in restaurants, specifically food services and drinking places, which in 2013 employed [48.78 percent](#) of all workers who earned at or below the federal minimum wage. Food services and drinking places continue to employ low-wage workers today. The average hourly pay rate of production and nonsupervisory workers in that industry was only \$11.74 in [December 2015](#). Evaluating job growth in food services and drinking places provides a valid idea of how minimum wage hikes in 2015 impacted job creation for low-wage workers.

METHODOLOGY

To analyze trends in city restaurant employment relative to the rest of the state, we use the most localized data for each metropolitan area available in the Federal Reserve Bank of St. Louis’s Federal Reserve Economic Data (FRED). For each city, we use seasonally adjusted food services and drinking places employment data in the metropolitan statistical area (MSA) or metropolitan division (MD), illustrated below.

Table 2: Metropolitan Areas Analyzed

City	Metropolitan Area Analyzed
Chicago, IL	Chicago-Naperville-Arlington Heights (MD)
Louisville, KY	Louisville/Jefferson County (MSA)
Seattle, WA	Seattle-Bellevue-Everett (MD)
Washington, DC	District of Columbia
<i>San Francisco Bay Area</i>	
Oakland, CA	Oakland-Hayward-Berkeley (MD)
San Francisco, CA	San Francisco-Redwood City-South San Francisco (MD)
San Jose, CA	San Jose-Sunnyvale-Santa Clara (MSA)

There are pros and cons to these data. The pros are that the data are able to take into account smaller localities that are following in the footsteps of the major cities by raising their own minimum wages. This is particularly true in the San Francisco Bay Area where a large number of smaller towns surrounding the major cities have enacted their own minimum wage increases. For instance, the Oakland-Hayward-Berkeley MD includes Oakland, Berkeley, Emeryville, and Richmond all of which began phasing in minimum wage increases last year. In addition, the San Jose-Sunnyvale-Santa Clara MSA includes San Jose, Sunnyvale, and Mountain View, which all increased their minimum wages to \$10.30 this year.

While we would ideally like to examine restaurant employment trends only within these cities themselves, we are unable to do that. Except in the case of Washington, DC, all of metropolitan areas we examine include towns and cities that did not raise the minimum wage. As a result, while the center of economic activity in the regions we examine did raise the minimum wage in 2015, the metropolitan area data also include areas that did not. Regardless of this shortcoming, metropolitan area data remain the best for this analysis because they are most local data available to evaluate last year's restaurant employment trends.

For each metropolitan area, we measure the growth in food services and drinking places employment in both 2014 and 2015. Consequently, we measure the percent change in food services and drinking places employment from December 2013 to December 2014 and from December 2014 to December 2015. We do the same for the state that the metropolitan area is located in and exclude the metropolitan area itself. Since Washington, DC is not located in a state, we compare restaurant employment growth in the District to the growth in Virginia and Maryland.

We then combine food services and drinking places employment in all of the metropolitan areas and combine employment in all metropolitan area's surrounding states. This allows us to compare restaurant employment growth in all the metropolitan areas that raised the minimum wage together to restaurant employment growth in all of the rest of the states together. We do this for 2014 and 2015, then to determine if the rates are accelerating or decelerating, we calculate the percentage point change in the growth rates between the two years.

RESULTS

The results are fairly conclusive: in 2015 metropolitan areas where a major city raised the minimum wage consistently had slower restaurant job growth than in the surrounding areas. Moreover, before last year's minimum wage increases restaurant employment in these metropolitan areas actually grew faster than the surrounding states. So when the minimum wage increased in these major cities, the magnitudes literally flipped as restaurant employment began growing slower in the metropolitan areas and faster in the rest of the states.

First, let's examine restaurant employment in the year before these minimum wage increases took effect. Table 3 illustrates restaurant employment growth in each metropolitan area in 2014.

Table 3: Restaurant Job Growth Rates in 2014

City	Metropolitan Area	Rest of State
Total	4.2%	3.4%
Chicago, IL	2.4%	0.8%
Louisville, KY	7.0%	0.6%
Seattle, WA	4.0%	1.6%
Washington, DC	3.0%	2.0%
<i>San Francisco Bay Area</i>	6.0%	5.0%
Oakland, CA	4.3%	5.2%
San Francisco, CA	8.0%	4.9%
San Jose, CA	5.3%	5.1%

Except in Oakland, in each of these metropolitan areas, in 2014 restaurant job growth was faster than in the rest of the states. In 2014, overall restaurant employment in these metropolitan areas grew 4.2 percent whereas in the rest of the states it grew 3.4 percent. For instance, in 2014 restaurant employment in Louisville grew 7 percent compared to just 0.6 percent in the rest of Kentucky. And in Seattle, it grew 4 percent compared to 1.6 percent

in the rest of Washington state. In addition, in San Francisco it grew 8 percent compared to 4.9 percent in the rest of California.

It is important to recognize that Washington and San Jose did raise the minimum wage in 2014 as well. In Washington’s case, however, the 3 percent restaurant employment growth experienced in 2014 was far slower than the 5.7 percent growth the District experienced in 2013, the year before its new minimum wage began phasing in. So it is possible that Washington had already begun experiencing negative labor market consequences of its minimum wage law. Meanwhile, San Jose in 2014 increased its minimum wage 15 cents from \$10 to \$10.15. However, at this point neither Sunnyvale nor Mountain View had implemented a minimum wage increase. So the effect of raising the minimum wage on the restaurant employment in that metropolitan area in 2014 was unlikely to be large.

Now let’s turn to 2015, when each of the major cities in these metropolitan areas raised their minimum wages. Table 4 shows that restaurant employment suffered substantially in the metropolitan areas compared to the rest of their states.

Table 4: Restaurant Job Growth Rates in 2015

City	Metropolitan Area	Rest of State
Total	1.6%	4.0%
Chicago, IL	1.6%	-0.5%
Louisville, KY	1.7%	3.2%
Seattle, WA	1.4%	6.9%
Washington, DC	3.4%	2.6%
<i>San Francisco Bay Area</i>	1.2%	5.2%
Oakland, CA	4.5%	4.4%
San Francisco, CA	0.1%	4.7%
San Jose, CA	-1.1%	4.7%

In direct contrast to 2014, restaurant employment in major cities that raised the minimum wage in 2015 was consistently slower than the rest of the states in which the cities are located. Overall, restaurant employment in these metropolitan areas only grew 1.6 percent in 2015, while it grew 4.0 percent in the rest of the states. In Louisville, restaurant employment grew 1.7 percent, while it grew 3.2 percent in the rest of Kentucky. Also, the two cities that are implementing \$15 minimum wages clearly struggled in 2015. In Seattle restaurant employment grew 1.4 percent, while it grew 6.9 percent in the rest of Washington. In San Francisco restaurant

employment only grew 0.1 percent, while it grew 4.7 percent the rest of California. Meanwhile, restaurant employment in the San Jose metropolitan area appears to have had the weakest year. In 2015, the city of San Jose raised its minimum wage to \$10.30 and Mountain View and Sunnyvale both raised their minimum wages from \$9 to \$10.30. Restaurant employment in the metropolitan area decreased 1.1 percent, while in the rest of California it increased 4.7 percent.

Moreover, in 2015 restaurant employment in these metropolitan areas grew slower than in 2014, despite restaurant employment growing faster in the surrounding areas. Table 5 contains the percentage point change in the restaurant employment growth rates between 2014 and 2015 in each of the metropolitan areas and their surrounding areas.

Table 5: Percentage Point Change in Restaurant Employment Growth

City	Metropolitan Area	Rest of State
Total	-2.7	0.6
Chicago, IL	-0.8	-1.3
Louisville, KY	-5.4	2.5
Seattle, WA	-2.6	5.4
Washington, DC	0.3	0.5
<i>San Francisco Bay Area</i>	-4.8	0.2
Oakland, CA	0.2	-0.8
San Francisco, CA	-7.9	-0.2
San Jose, CA	-6.4	-0.4

Overall, in 2015 restaurant employment in all of these metropolitan areas combined grew 2.7 percentage points slower than in 2014. Meanwhile in the rest of their states it grew 0.6 percentage point faster. The largest decelerations in the restaurant employment growth occurred in Louisville, San Jose, and San Francisco. In Louisville’s metropolitan area restaurant employment grew 5.4 percentage points slower than in 2014, while it grew 2.5 percentage points faster in the rest of Kentucky. In San Jose, it grew 6.4 percentage points slower, while it grew only 0.4 percentage point slower in the rest of California. In San Francisco, restaurant employment grew 7.9 percentage points slower in 2015 than in 2014, while in all of California excluding the San Francisco metropolitan area it only grew 0.2 percentage point slower.

The two main outliers are Chicago and Oakland. In Chicago restaurant employment growth decreased in 2015, but at a slower rate than in the rest of Illinois. In Oakland restaurant employment growth slightly accelerated,

while it decelerated in the rest of California. Also of note was that in Washington DC, restaurant employment growth slightly accelerated. But, it accelerated at a slower rate than the restaurant employment growth in the District's surrounding areas.

CONCLUSION

This paper provides an early snapshot of restaurant employment trends in the metropolitan areas where major cities implemented minimum wage increases. These minimum wages have not been fully implemented and it could take several years for analysts to have the information needed to understand how these minimum wage increases are impacting local employment. The preliminary data, however, do show a slowing of restaurant employment growth. As these large minimum wage increases continue to be implemented and more steep minimum wage hikes are passed into law, the trends that are already occurring could become more problematic.