

MASSACHUSETTS BENCHMARKS

The quarterly
review of
economic
news &
insight

summer 2001 • volume four issue 3

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A PUBLICATION OF
THE UNIVERSITY
OF MASSACHUSETTS

IN COOPERATION WITH
THE FEDERAL RESERVE
BANK OF BOSTON

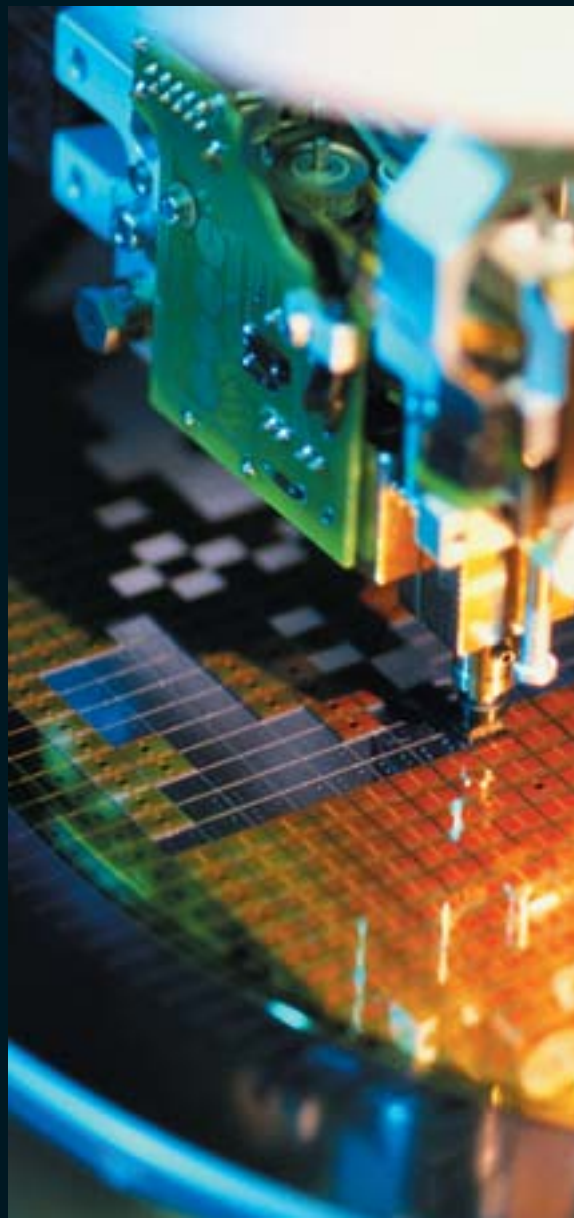




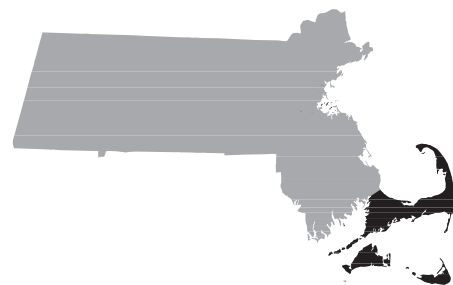
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Cape Cod & the Islands

More than a Resort Economy

CLYDE W. BARROW

For nearly a century, visitors have flocked to the Cape and Islands region from all points on the globe, some for summer wages, some for summer vacations. The resort industry has been a mainstay of the region's economy. But summers are short, and it is never long before vacationers head home and revenues drop precipitously. How does a region that is known for its beaches and bistros mitigate this seasonal volatility and build a strong year-round economy?



The Cape Cod and Islands region occupies 551 square miles and has a population of 246,737. This represents a 20.8 percent population increase since 1990, compared to 5.5 percent for the state. A more detailed map of the region appears inside the back cover of this journal.

The Region's Highly Seasonal Economy

Unlike the economic bases of the Commonwealth's other five regions, that of the Cape Cod and Islands region depends largely on the resort industry, retirees, second-home owners, and residents who work in other parts of the state.¹ While the region's year-round economy has grown significantly over the last decade, its resort industry remains highly seasonal; room demand on the Cape alone declines by 50,000 to 100,000 rooms per month from the summer's peak to the industry's winter trough. The Cape's resort industry, in particular, is highly sensitive to factors such as weather and the economic condition of other regions and states that fuel its tourist trade.² Two-thirds of the Cape's resort industry employers are finding it more difficult to recruit seasonal employees now than it was five years ago. A lack of housing, along with high housing costs, have been cited as important factors.

At the heart of the region's resort industry is its fragile ecosystem. To protect this key resource, economic development plans emphasize a balance of economic redevelopment, historical preservation, and environmental conservation.³ Economic development officers are seeking to recruit and develop "light-clean" industries,

such as selected high-technology, professional services, and communications firms. Industries like these generally provide high-wage jobs while having less of an impact on the environment than traditional manufacturing.

A relatively high level of educational attainment provides the region with an opportunity to develop emerging industries in high-technology areas such as marine technology, software engineering, and environmental technology. Meanwhile, efforts to lengthen the resort season by attracting tourists during "shoulder" periods in the early spring and late fall have been moderately successful.

Business Growth, Employment, and Income

The development of the Cape Cod and Islands economy is defined by three overlapping trends: long-term growth, seasonality, and the regular business cycle. The Cape Cod and

Islands region has been one of the fastest growing economic regions in Massachusetts since 1990, as measured by growth in its population, labor force, new business establishments, and total employment. The region's economy experienced its last recession in 1991 and has been participating in the state's economic recovery since 1993. Unlike many previous economic expansions, the current recovery has lasted long enough for the benefits of growth to spread outward to other areas, such as Barnstable County, that have often failed to participate fully in the state's economic prosperity.

Business vitality on the Cape and Islands was exceptionally robust during the 1990s. The region added 1,052 (11.5 percent) net new business establishments between 1990 and 1999, which was slightly higher than the statewide rate of establishment growth (8.3 percent). The area's economy has long been distinguished from other regions

of the state by its reliance on small businesses and proprietorships. More than 80 percent of the region's business establishments employ fewer than 10 people, compared to 73.5 percent statewide. In addition, approximately 12 percent of the region's residents are self-employed, which is twice the statewide average.⁴

The region's business vitality has been accompanied by equally strong employment growth. Total average employment increased from 102,405 in 1990 to 117,887 in 1999.⁵ Thus, the region's total employment increased by 15 percent, three times the statewide increase. Like the rest of the state, Cape Cod and the Islands are achieving "full employment" on a year-round average basis. In 2000, the region's average annual unemployment rate was 3.5 percent, compared to a statewide average of 2.6 percent. The average annual unemployment rates in the region's economic areas ranged from a high of 3.6 percent in Barnstable County and 3.2 percent in Dukes County to a low of 1.3 percent in Nantucket County.⁶

However, the region's unemployment rate continues to fluctuate between seasonal extremes as a result of its resort-based industries. For example, the unemployment rate

Cape and Islands Population Change, 1990–2000

The region's striking population change over the past decade is largely due to an influx of retirees as well as commuters who work off-Cape.

	1990	Increase	2000	Percent Increase
Massachusetts	6,016,425	332,672	6,349,097	5.5
Cape Cod & Islands	204,256	42,481	246,737	20.8
Cape Cod	186,605	35,625	222,230	19.1
Town of Barnstable	40,949	6,872	47,821	16.8
Town of Falmouth	27,960	3,348	32,660	12.0
Town of Yarmouth	21,196	3,611	24,807	17.0
Martha's Vineyard	11,639	3,348	14,987	28.8
Nantucket	6,012	3,508	9,520	58.3

Source: U.S. Bureau of the Census

Business Units, Labor Force, and Employment

	Business Units			Labor Force			Annual Average Employment		
	1990	1999	Percent Change	1990	1999	Percent Change	1990	1999	Percent Change
Massachusetts	174,110	188,552	8	3,227,600	3,284,100	2	3,032,900	3,179,100	5
Cape Cod & Islands	9,110	10,162	12	109,818	122,912	12	102,405	117,887	15
<i>Cape Cod</i>	7,690	8,351	9	97,508	107,105	10	90,607	102,545	13
<i>Martha's Vineyard</i>	823	1,043	27	7,541	9,336	24	7,175	8,981	25
<i>Nantucket</i>	597	768	29	4,769	6,471	36	4,623	6,361	38

Sources: Massachusetts Division of Employment and Training, Bureau of Labor Statistics

was 2.1 percent in July 2000 (below the statewide average of 2.8 percent) and 6.9 percent in January 2001 (more than twice the statewide average of 3.1 percent). The volatility in unemployment rates is greatest on Cape Cod and least pronounced on Nantucket.

The region's resort industry also has a significant impact on wage levels, which are substantially below statewide averages, due to seasonal unemployment and the large number of jobs in low-wage service occupations. Average annual earnings in the region are \$29,670, which is 26.5 percent below the statewide average of \$40,355 (1999). Average earnings range from a high of \$32,177 on Nantucket and \$29,713 on Cape Cod to a low of \$27,139 on Martha's Vineyard.⁷

However, wage data alone convey an overly pessimistic picture. Much of the seasonal volatility and low-wage jobs impact high school students, college students, and temporary foreign workers, who migrate to the Cape and Islands during the resort season specifically for temporary employment. It is estimated that Cape Cod's resort industry accounts for 15 percent of all temporary workers admitted to the United States on H2B Visas.⁸ (See Endnotes, page 24, for a discussion of visas.) Many seasonal jobs are held by moonlighters, homemakers, and retirees, who supplement family income by working temporarily during the resort season.

Thus, when one examines data on total personal income (from all sources) for the region, income for year-round residents compares favorably to those in the state as a whole. Total personal income for the region increased from \$4.9 billion in 1990 to \$7.6 billion in 1998. The region's total personal income increased by 36.2 percent, compared to 35.5 percent for the state as a whole. Personal

income increased by 45.2 percent on Nantucket, 40.2 percent on Martha's Vineyard, and 32.1 percent on Cape Cod. Total personal income per capita was \$44,267 on Nantucket, \$33,599 on Martha's Vineyard, \$32,612 on Cape Cod, and \$33,496 for the entire state.⁹

Business Clusters

Cape Cod and the Islands have several identifiable business clusters or industry groupings that are linked together through shared customer, supplier, or other relationships. The major business clusters on Cape Cod and the Islands are the resort industry, allied health services, business services, and high technology. The region continues to rely heavily on the resort industry, though efforts to diversify the Cape's economy, especially, have met with some success.

Resort Industry. The resort industry is the region's largest business cluster. It includes eight major groups: general merchandise stores, food stores, apparel and accessories, eating and drinking places, miscellaneous retail, hotels and other lodging places, amusement and recreation services, and museums.¹⁰ The region is a leading tourist destination for Massachusetts, New England, and Mid-Atlantic residents.¹¹ It is estimated that nearly 6 million visitors come to the region and spend almost \$1 billion annually.

In 1999, the resort industry accounted for 25.5 percent of the region's peak total employment of roughly 100,000 jobs. This is an increase from 22.3 percent in 1997. When the effect of indirect and induced impacts is calculated, the resort industry generates approximately 41 percent of the region's total employment. The annual average earnings in the industry are \$17,888, ranging from a low of \$14,871 for eating and drinking places to a high of

\$20,007 for miscellaneous retail.¹² Annual average earnings in the regional resort industry range from \$16,983 on Cape Cod to \$20,600 on Martha's Vineyard and \$23,731 on Nantucket.

Allied Health Services. Allied health services include hospitals, nursing homes, home health care providers, health maintenance organizations, medical laboratories, rehabilitation facilities, group medical practices, and individual practitioners. In 1999, allied health services accounted for 10.5 percent of the region's total employment, or 10,240 jobs. This is a decline from 11.4 percent in 1997.

Average annual earnings in the cluster are above the region's average. Population growth, particularly among retirees, and the availability of Medicare and Medicaid reimbursements for services to the elderly supported growth in this cluster during much of the 1990s. Fee caps and government cutbacks in reimbursements, however, along with cost controls implemented by HMOs, hospitals, and nursing homes, are now constraining employment growth in this sector.

Business Services. The business services cluster consists of three major groups: business services, engineering and management services, and legal services. In 1999, business services accounted for 5.6 percent of the region's total employment, or 5,241 jobs. This is an increase from 5.2 percent in 1997. Average annual earnings in the cluster are above the region's average. Moreover, the strategy of using the region's high quality of life to recruit "high-end" business and professional services firms appears to be successful, as 71 percent of the employment in this cluster is concentrated in legal, engineering, accounting, research, and management services.

High Technology. The high-technology cluster consists of four major groups: industrial and commercial machinery (including computers); measuring and analyzing equipment; communications; and computer programming, data processing, and other computer-related services. High technology accounted for only 2.5 percent of the region's total employment, or 1,660 jobs, in 1999, with much of the employment concentrated in a few firms. Average annual earnings in the cluster are well above the regional and state averages, but the cluster is shedding employees much like similar firms throughout the country.

The Seasonal Workforce: A Different Kind of Labor Shortage

A unique characteristic of the Cape Cod and Islands economy is the annual seasonal fluctuation that is overlaid on its long-term growth and the periodic fluctuations of the nation's business cycle. The resort industry is highly seasonal, with 65 percent of visitors arriving in the summer and early fall months. The region's seasonal employment shows a trough in February of each year and a peak in July or August. Conversely, the region's unemployment level reaches a high in February and declines to its lowest level in

Significant Business Clusters

	Average Earnings (Dollars)		Percent of Area's Employment	
	1997	1999	1997	1999
Cape Cod & Islands	25,276	29,670		
Allied Health Services	29,712	33,019	11.4	10.5
Business Services	34,114	37,511	5.2	5.6
High Technology	40,487	47,077	2.5	2.5
Resort Industry	16,467	17,627	22.3	25.5
Cape Cod	25,135	29,713		
Allied Health Services	29,553	33,014	12.1	11.1
Business Services	34,224	37,571	5.4	5.9
High Technology	40,432	47,105	2.8	2.8
Resort Industry	15,229	16,832	22.6	22.3
Martha's Vineyard	24,610	27,139		
Allied Health Services	29,887	31,791	7.8	7.4
Business Services	28,158	33,297	3.4	3.5
High Technology	42,826	43,519	0.8	0.8
Resort Industry	18,618	20,517	26.8	26.9
Nantucket	28,362	32,177		
Allied Health Services	32,839	36,236	4.2	3.8
Business Services	38,460	40,894	3.8	3.8
High Technology	N/A	N/A	N/A	N/A
Resort Industry	21,330	23,116	32.1	31.8

Sources: Massachusetts Division of Employment and Training, U.S. Bureau of the Census

July or August, though the range of fluctuation is more severe for the Cape than for Nantucket or Martha's Vineyard. On the Cape, for instance, total employment increases an average of 42.6 percent each year from February to the summer peak. The Cape's seasonal workforce increased from 21,109 in 1990 to 24,930 in 1999. Many employers report an unmet demand for additional seasonal workers, particularly during the shoulder seasons.

Discussions among academic economists, business leaders, and public officials about the state's labor shortage have focused mainly on highly skilled professional or technical employees, but on Cape Cod and the Islands there is an

acute shortage of unskilled and semi-skilled seasonal workers in the resort industry. The University of Massachusetts Dartmouth Center for Policy Analysis conducted a summer workforce analysis, including a mail survey of more than 1,700 Cape Cod employers, to determine the composition and needs of the summer workforce.¹³ It was found that more than one-third of the Cape's resort industry employers are finding it somewhat difficult to recruit seasonal employees, while another third find it very difficult. More than 60 percent of resort industry employers report that it is more difficult to recruit seasonal employees now than it was five years ago. Roughly 40 percent of employers indicate that a general labor shortage and a seasonal housing shortage are the two biggest obstacles to recruiting employees in the resort industries. Housing costs and wage demands were also cited as important factors that make it difficult to recruit seasonal workers.

Labor Shortage.

There are three major reasons for the Cape's general labor shortage: (1) full employment at the state and national levels, (2) success in lengthening the tourist season, and (3) Ireland's improving economy. The general labor shortage is not peculiar to the Cape and Islands, but it is having a uniquely local impact, especially since factors peculiar to the region's labor force and seasonal economy exacerbate the labor shortage. First, as the Cape Cod and Massachusetts economies generate more full-time jobs, the resident seasonal workforce is shrinking. Only about 30 percent of the Cape's peak seasonal workforce consists of year-round Cape residents, and only about half of these workers are adults.

On Cape Cod in particular, rapid population growth does not automatically translate into growth in the resident labor force. It is estimated that 16 to 20 percent of the Cape's employed residents commute to off-Cape establishments for full-time, year-round employment. Communities such as Sandwich, Falmouth, and Mashpee are becoming Boston bedroom communities. Daily bridge crossings over the Sagamore and Bourne Bridges more

than doubled from 41,513 in 1972 to 93,648 in 1998.

The region's resort industry has long depended on college students, because academic calendars coincide with the region's tourist season. College students still constitute 50 to 80 percent of the seasonal workforce in many establishments during peak summer months. However, rising housing costs, the lack of available housing, and the livelier atmosphere of other resort areas (South Carolina, Florida, Southern California) are making it increasingly difficult to attract out-of-state college students for summer work.

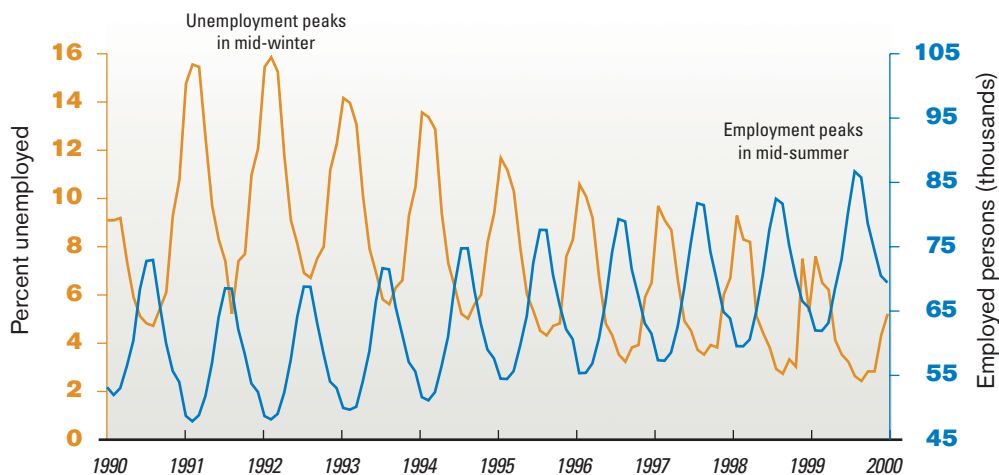
Furthermore, a major component of the regional economic development strategy is to mitigate seasonality by building the shoulder seasons in late spring (May) and early fall (September–October). This entails lengthening the tourist season from June through August (essentially Memorial Day to Labor Day) to May through October/November (essentially Mother's Day to Columbus Day

or even Easter to Thanksgiving). The growth of the shoulder seasons has not merely increased the demand for seasonal workers, it has generated demand for workers who are available for four- to eight-month periods instead of only during the peak season. The development of the shoulder seasons

is resulting in adjustment frictions, as employers seek new sources of available labor. The fastest growing sources of seasonal labor in the Cape's resort industry are foreign college students on J1 visas (5.2 percent of the Cape's seasonal workforce), foreign temporary workers on H2B visas (16.5 percent), and retirees (11.9 percent).¹⁴

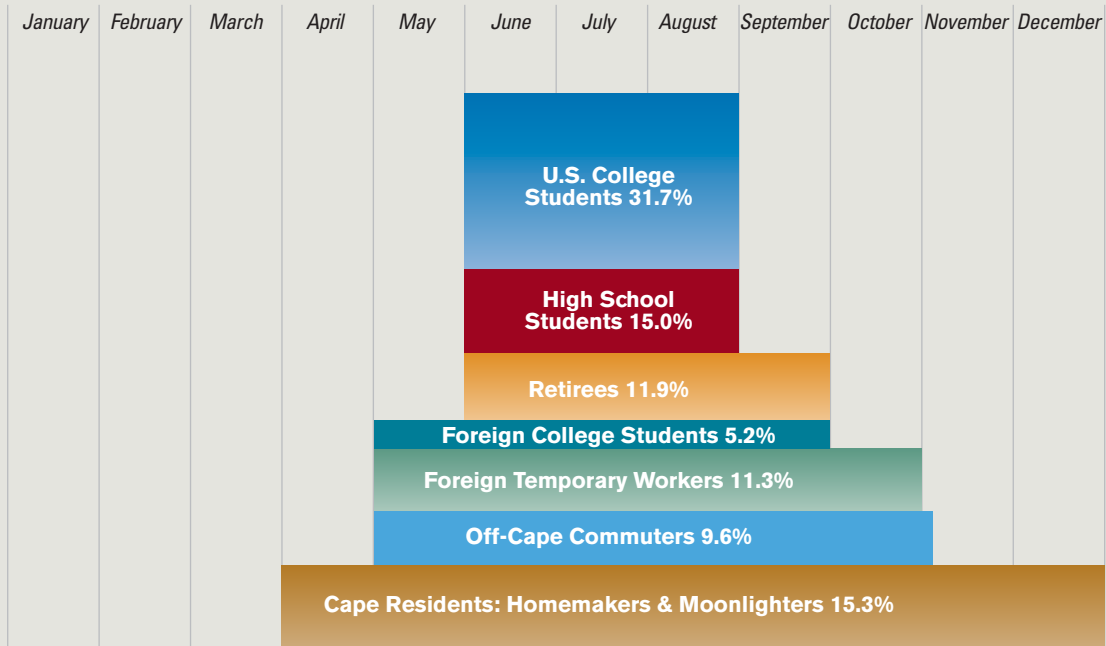
For at least the last 15 years, Ireland has been the Cape's main source of foreign temporary workers, including many college students. This supply has been drying up in the last few years, with Ireland's improving economy. The unemployment rate in Ireland fell from 12.0 percent in January 1996 to 4.5 percent in June 2000. Ireland collects a separate statistic on "long-term unemployment," which is currently at 2.1 percent.¹⁵ The strong performance of the Irish economy is resulting in fewer workers seeking temporary overseas employment.

Cape Cod Employment and Unemployment 1990–1999



Sources: Massachusetts Division of Employment and Training

Cape and Islands Seasonal Workforce



Source: University of Massachusetts Dartmouth, Center for Policy Analysis (see note 13)

The Cape's resort industry employers now hire foreign temporary workers from at least 30 countries on five continents. Russia and Eastern Europe are emerging sources of college student labor, due to economic distress in those countries. Increasing numbers of Western European students are also coming to Cape Cod and the Islands as a result of the European Union's promotion of international higher education.¹⁶ Many universities in the European Union are requiring students to study and work abroad for a period of time to graduate. For these students, Cape Cod and the Islands offer an attractive opportunity to improve language skills and to learn about American business practices, markets, and culture. Finally, Jamaicans now account for 30 to 35 percent of the Cape's foreign temporary workers on H2B visas, and they fill an important role in the seasonal labor market as four- to eight-month employees.

Housing. The Cape's growing reliance on J1 (student) and H2B foreign temporary workers has made housing cost and availability more salient to employers, since the H2B program and many foreign university work-abroad programs require employers to arrange and guarantee housing for prospective employees and interns. Thus, seasonal employee housing is becoming a regular part of the resort industry's cost structure.

It is estimated that no fewer than 7,746 seasonal workers come to the Cape each year in search of housing, including U.S. college students (3,619), foreign college students (1,299), and H2B foreign temporary workers (2,828). The Center for Policy Analysis employer survey found that 27.2 percent of the Cape's resort industry employers currently provide housing or a housing subsidy for seasonal employees. Employer-provided housing is being called "the new reality" for the region's tourist industry, since the number of employers providing housing, and the number of units provided by employers, are increasing each year. Hotels (50.0 percent), eating and drinking places (32.6 percent), and food stores (30.8 percent) are the most likely establishments to offer housing or housing subsidies to their seasonal workers.

Wages. A secondary consideration in recruiting seasonal workers is wage demands, a product of the general labor shortage and escalating housing costs on Cape Cod. Only 24.9 percent of employers identified wage demands as a factor making it difficult to recruit seasonal workers. Most employers are simply meeting wage demands as a way of attracting and retaining good employees. A comparative analysis of industry and occupational wages indicates that resort industry wages are not out of line with the rest of the

state, but that the long-running economic recovery and attendant labor shortage are finally pulling Cape Cod's wage levels into line with state averages.

Conclusion

Reducing seasonal volatility in the regional economy is a major goal of business leaders and government officials on Cape Cod and the Islands. Strategies include attracting affluent retirees and second homeowners, recruiting high-technology and professional service firms, and lengthening the resort industry's shoulder seasons. During the last decade, the region has made notable progress toward each of these goals, but its economic development is still tied to the fortunes and structure of the resort industry.

Cape Cod and the Islands have long been advertised as affordable family destinations, especially for short getaway vacations by New England and Middle Atlantic residents. However, the region's ability to maintain low prices has been closely related to year-round and seasonal labor costs that have been well below the state average, and to comparatively lower real estate prices. While there would seem to be some limit to the volume of tourist traffic that the Cape and Islands can sustain, visits continue to climb from year to year. Hotel and motel occupancy rates are reaching 90 to 100 percent during the high season, and occupancy rates continue to increase during the fall shoulder season. As rental rates escalate, more and more permanent residents are vacating their homes during the summer and renting them to tourists. With the Cape's population and housing stock increasing, the availability of space for tourists at the market's high end has increased; the supply of affordable housing for year-round residents and seasonal workers is shrinking.

The region's labor shortage, a seasonal housing shortage, and rising real estate prices are converging to drive up costs for the region's resort industry. Thus far, there does not appear to have been any difficulty in passing these costs off to tourists. However, a long-term continuation of this trend may force the region's resort industry to shift from a low-cost to a high-value model of tourism. The ideal situation may be to accommodate fewer tourists who spend more money, but this will substantially alter the region's character as a tourist destination. ▮

1 Commonwealth of Massachusetts, *Choosing to Compete: A Statewide Strategy for Job Creation and Economic Growth* (Boston: Executive Office of Administration and Finance, 1993), Chap. 15.

2 Hunter Interests, Inc., *Economic Analysis: Cape Cod Tourism Expansion Strategy* (Barnstable, Mass.: Cape Cod Economic Development Council, 1996).

3 Cape Cod Commission, *Cape Cod Regional Policy Plan* (Barnstable, Mass., 1996); Victor Gautam, "Cape Cod and the Islands: Working Toward a Sustainable Year-round Economy," *Massachusetts Benchmarks: The Quarterly Review of Economic News & Insight*, Vol. 2, No. 3 (Winter 1999): 19-23.

4 (US Census 1990)

5 (DET, ES-202 1990, 1999)

6 (BLS, LAUS 2000)

7 (ES-202 1999)

8 (Center for Policy Analysis 2000)

9 (BEA 1990, 1998)

10 In calculating the direct economic impacts of the resort industry, it is estimated that 35 percent of total annual average employment in General Merchandise, Apparel and Accessories, and Food Stores is tourist related, based on summer sales figures shared with the author by various establishments. It is estimated that 75 percent of total annual average employment in Miscellaneous Retail and Eating and Drinking establishments is tourist related. It is estimated that 100 percent of total annual average employment in Amusement and Recreation, Museums, and Lodging establishments is tourist related.

11 ArtsMarket Consulting, Inc., *Tourism Market Study Analysis: Visitors to Cape Cod* (Barnstable, Mass.: Cape Cod Chamber of Commerce and Cape Cod Times, 1995); Commonwealth of Massachusetts, *Convention & Public Assembly Facilities Market & Feasibility Study: Cape Cod Region* (Boston: Executive Office of Administration and Finance, 1998).

12 (ES-202 1999)

13 The Center for Policy Analysis conducted a four-month study of Cape Cod's seasonal workforce at the request of the Cape Cod Commission and the County of Barnstable. All statistics on foreign temporary workers, unless otherwise noted, were generated from the CFPA's employer survey. Although the study focused on Barnstable County, its findings are no doubt applicable to the resort-based economies of Nantucket and Dukes Counties. The report, *Help! Wanted: Cape Cod's Seasonal Workforce*, can be obtained at: <http://www.umassd.edu/cfpa/doeconomics.html>.

14 Andrew Sum and W. Neal Fogg, *The Changing Workforce: Immigrants and the New Economy in Massachusetts* (Boston: Citizens Bank and MassInc., 1999); K. C. Myers, "Foreign Exchange: Cape Businesses Happy to Have Workers from Abroad," *Cape Cod Times* (September 14, 1999), pp. A1, A10-A11; Jack Perry, "Help Wanted: Employers Scramble to Find Workers in Tight Market," *Cape Cod Times* (September 6, 1999), pp. C1, C3; "Foreign Workers Help Fill Cape Hospitality Jobs," *Cape Cod Times* (June 25, 2000).

15 Government of Ireland, *Department of Enterprise, Trade and Employment, Annual Report 1999* (Dublin: Central Statistics Office of Ireland, 2000). www.cso.ie/principalstats/pristatlab.html.

16 Richard D. Lambert, "Foreign Student Flows and the Internationalization of Higher Education," in Katherine H. Hanson and Joel W. Meyerson, eds., *International Challenges to American Colleges and Universities* (Phoenix: American Council on Education and Oryx Press, 1995) pp. 18-41; Organization for Economic Cooperation and Development, *Measuring What People Know: Human Capital Accounting for the Knowledge Economy* (Paris: Organization for Economic Cooperation and Development, 1996).

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Cape Cod and the Islands

