



Labor Market Effects of Minimum Wage Increase in Minneapolis and St. Paul

Researchers at the Federal Reserve Bank of Minneapolis and the University of Minnesota recently shared initial results from their [economic impact analysis](#) of minimum wage policies implemented by the cities of Minneapolis and St. Paul.

The investigators focused their analysis on results from 2018 and 2019. The report also provides data from 2020, but given the unprecedented events of the year, additional analysis is needed to disentangle effects of the minimum wage increase from effects of the pandemic and civil unrest.

Key Findings from 2018 and 2019

Most low-wage sectors in Minneapolis saw average hourly wages increase, but almost none saw significant changes in total jobs, hours worked, and earnings.

- The analysis focused on sectors in which large shares of workers earned less than \$15 per hour: accommodation and food service, administration and support, health care and social assistance, retail, and other services.
- Three low-wage sectors saw average hourly wages increase 6 percent to 7 percent more than what investigators estimate they would have been if the minimum wage increases were not implemented.
- Investigators found almost no changes in total jobs, hours worked, and earnings in low-wage sectors, suggesting that the minimum wage increase had little effect on these outcomes during this initial phase-in period.

Restaurant workers in Minneapolis saw average hourly wages increase, but they were accompanied by declines in total jobs.

- At the request of policymakers, the report includes a more extensive analysis of the restaurant industry, a subset of the accommodation and food service sector.
- Investigators found that average hourly wages for full- and limited-service restaurant workers were 4 percent and 9 percent greater, respectively, than they would have been if the minimum wage increase were not implemented.
- Full- and limited-service restaurants also experienced declines in the number of jobs of 12 percent and 18 percent, respectively, compared with the number of jobs investigators estimated absent the minimum wage increase.

While minimum wages did not begin to increase in St. Paul until 2020, the data suggest that businesses reduced jobs and hours in anticipation of future wage increases in the preceding years.

- Investigators found evidence of anticipation effects in both the retail and the accommodation and food service sectors. Both sectors saw average wages increase and total hours worked decrease relative to estimates of what would have happened otherwise.
- The data show that these effects were more pronounced in the restaurant industry, which saw declines in total jobs, hours worked, and earnings in the years leading up to the minimum wage increase.
- Investigators say the data suggest that many businesses in St. Paul believed a minimum wage increase was inevitable and acted in anticipation of rising labor costs by adopting technology that replaced certain jobs or by relocating outside the city; however, there may have been other economic drivers of these changes.

About the Analysis

The analysis makes significant advancements in minimum wage research thanks to a data-sharing agreement between the Minneapolis Fed and the state of Minnesota.

- Principal investigators [Loukas Karabarbounis](#), [Jeremy Lise](#), and [Anusha Nath](#) utilized advanced statistical modeling to develop a credible estimate of wages, hours, jobs, and earnings in low-wage sectors in the absence of a minimum wage increase. These estimates were then compared with actual economic outcomes to assess what, if any, changes can be attributed to the minimum wage increase.
- The minimum wage evaluation was facilitated by access to detailed data from Minnesota's Department of Employment and Economic Development. These data provide quarterly earnings and hours worked for each employee of businesses that file unemployment insurance wage detail reports with the state.

Future reports will leverage data from the Department of Human Services and the Department of Revenue to disaggregate outcomes and better understand impact on workers and businesses.

- This is the first of several reports that the Minneapolis Fed will produce as part of its contracts with the cities of Minneapolis and St. Paul to evaluate the economic impacts of the minimum wage laws.
- Future studies will leverage data from the Minnesota Department of Revenue and the Minnesota Department of Human Services to look at the aggregate effects on workers and businesses.
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