

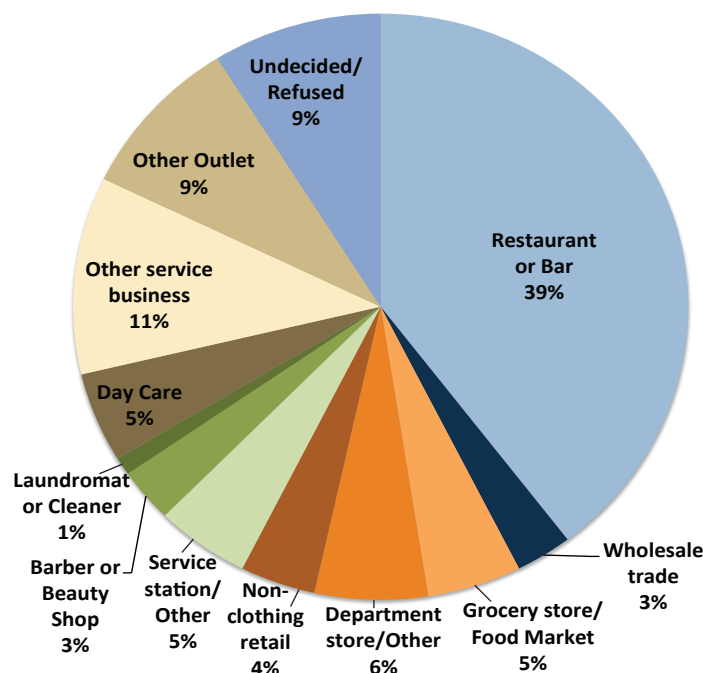
Early Experiences with Chicago's July 1st Minimum Wage Increase

About the Survey

In December 2014, the Chicago City Council approved a law raising the city's minimum wage by nearly 60 percent, to \$13 an hour, by 2019. A press release from the office of Mayor Rahm Emanuel trumpeted the wage hike as a boon for the city. Small business owners were less sure, expressing concerns about the unintended consequences of labor cost increases that couldn't be offset through higher prices.

The first stage of the wage increase takes place on July 1st, when the wage floor rises just over 20 percent to \$10 an hour. This survey, of 300 affected businesses in the city of Chicago, is intended to provide a first glance at planned reactions to this increase, and to future increases to come. While not representative of the city as a whole, the results suggest that proponents' predictions of a pain-free transition to a higher wage floor may not reflect reality.

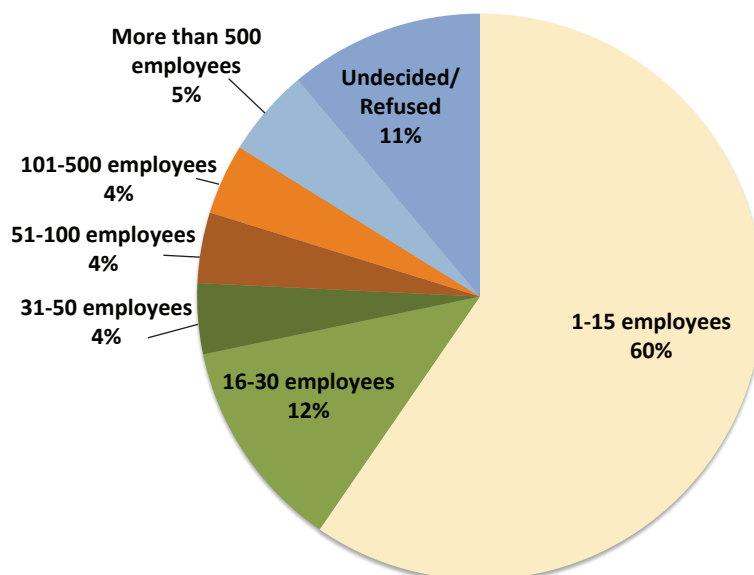
Industry of surveyed Chicago businesses



Survey Results

While proponents focused on large corporations during the debate over raising the minimum wage, the "face" of an affected business in Chicago often looks quite different. Of the 300 Chicago businesses surveyed, 214 of them—or over 70 percent—had 30 or fewer employees. Just over half of the surveyed businesses were from a non-restaurant industry sector, such as a day care, beauty shop, or a grocery store.

Size of surveyed Chicago businesses



Short-Term Consequences

One feature that most businesses that employ people at or near the minimum wage share is small profit margins. At fast food restaurants, for instance, typical profit margins are four percent. At grocery



stores, the figure is even smaller at 1-2 percent. Given these economic realities, it's unsurprising that half of the surveyed businesses reported raising prices in response to the minimum wage increase to \$10 an hour.

But price increases aren't a cure-all. As Chicago businesses described during the city's minimum wage debate, customers are price sensitive, and too steep an increase in prices could reduce sales. As a result, businesses reported taking other actions to offset the increased cost.

One-third of surveyed businesses said that they have or will soon reduce employees' hours, or their hours of operation, to offset the additional costs of the minimum wage increase. Just under one-quarter of surveyed businesses reported that they have already or will soon reduce staffing levels.

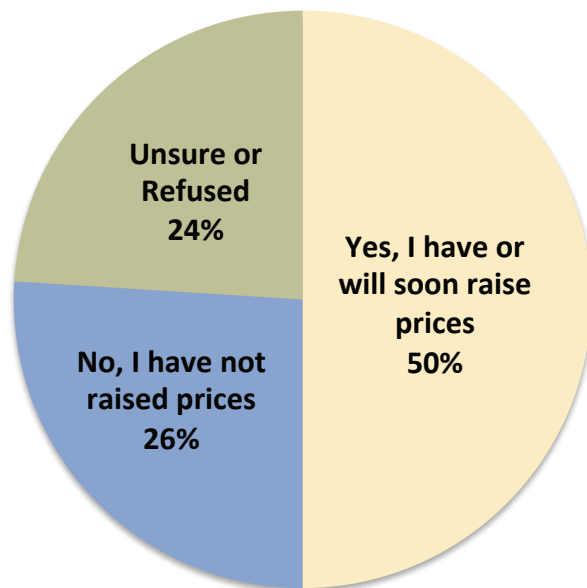
These results are broadly consistent with the research consensus on minimum wage increases, which suggests that past increases have had a negative impact on employment rates.

Long-Term Impacts

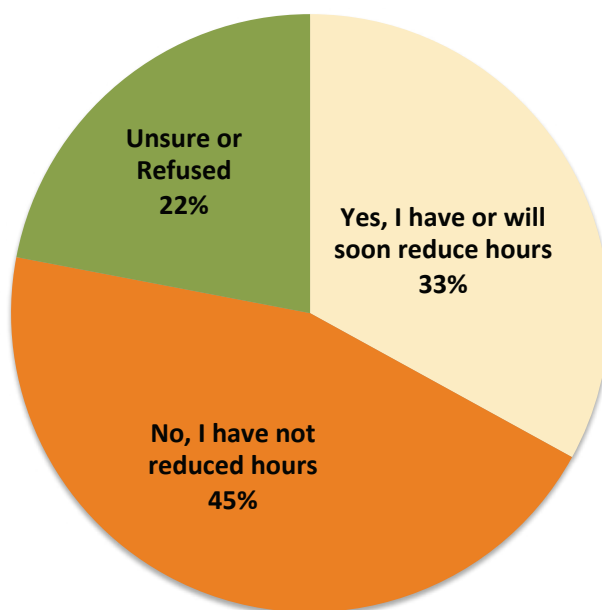
Perhaps more concerning, 23 percent of surveyed businesses indicated that the wage increase had caused them to halt or delay expansion plans in the city—a drastic step. Of course, Chicago's minimum wage will be rising substantially every year between now and 2019, and it's possible that this scaling-back of expansion plans is in response to the final wage figure rather than the current one.

For some businesses, there are other drastic options, including closing their doors. The survey asked Chicago businesses how likely they were to close their doors once the \$13 wage is fully phased in, come 2019. Many were unsure, or said it was not likely that they would close. But for 22 percent of respondents, closure was either "very likely" or "imminent."

Have you (or will you soon) raise prices?

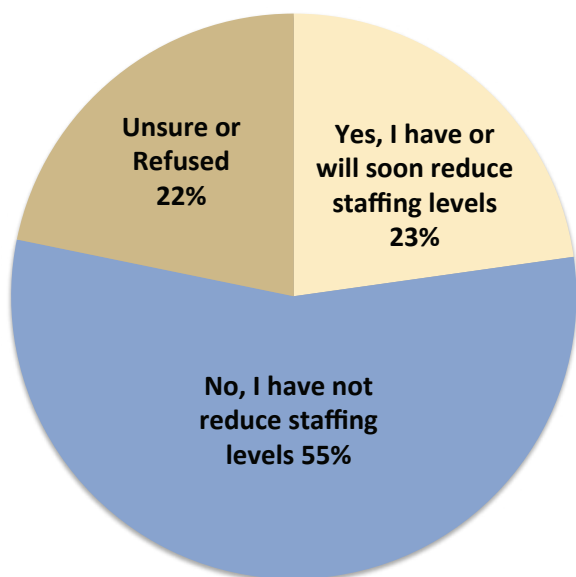


Have you (or will you soon) reduce employees' hours?

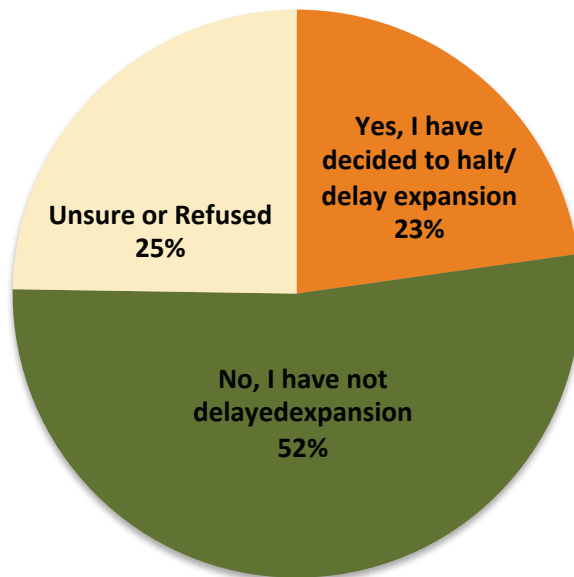




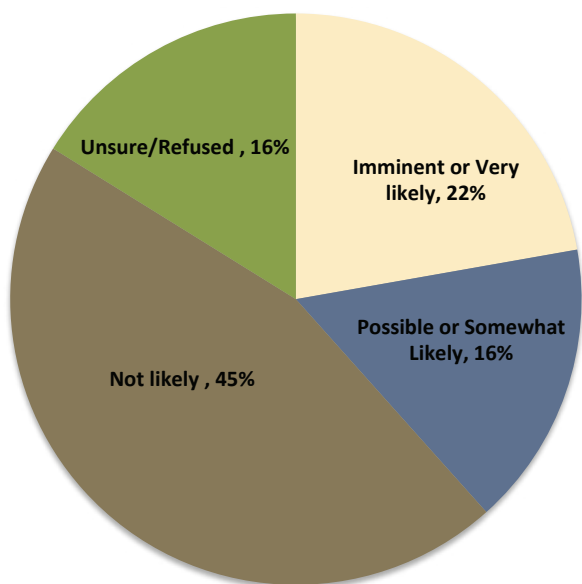
Have you (or will you soon) reduce staffing levels?



Have you decided to halt/delay expansion in the city?



With the \$13 minimum wage in force in 2019, how likely is it that you'll have to close?



References

Neumark, David. "Employment Effects of Minimum Wages." IZA World of Labor 2014: 6. <http://wol.iza.org/articles/employment-effects-of-minimum-wages.pdf>

Methodology

The survey was conducted by phone between June 16th and June 18th by Connection Strategy. 4,373 business records were purchased for Chicago, and business industries were identified by SIC code. Businesses were contacted and screened on whether they would have to raise wages in response to the new law. The final results represent 300 employers, but are not representative of the entire business community.

The Employment Policies Institute is a nonprofit research organization dedicated to studying public policy issues surrounding employment growth. In particular, EPI focuses on issues that affect entry-level employment. EPI receives support from restaurants, foundations, and individuals.