February 17, 2015

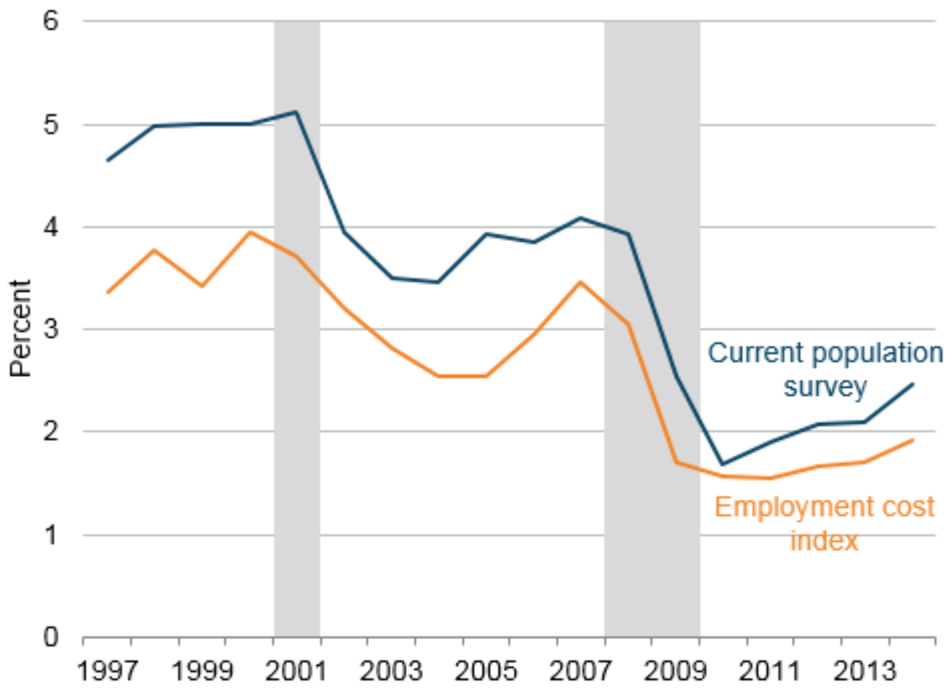
What's (Not) Up with Wage Growth?

In recent months, there's been plenty of discussion of the surprisingly sluggish growth in hourly wages. It certainly has the attention of our boss, Atlanta Fed President Dennis Lockhart, who in a speech on February 6 noted that

The behavior of wages and prices, in contrast, remains less encouraging, and, frankly, somewhat puzzling in light of recent growth and jobs numbers.

So what's up—or not up—with wage growth? Using samples of matched worker-level wage data from the U.S. Bureau of Labor Statistics' Current Population Survey, chart 1 plots the annual time series of median 12-month growth rates in per-hour wages. Like most wage growth measures, this chart indicates that wage growth has been gradually increasing since the end of the recession, but growth remains quite a bit lower than before the recession began. Prior to the recession, the median growth rate of wages was around 4 percent a year. This growth rate declined to 1.7 percent in 2010 (as the incidence of wage freezes become much more prevalent, as shown in this research) and increased to 2.5 percent in 2014. For comparison, the chart also shows the annual growth in the Employment Cost Index's measure of wages. The trends in the two measures are broadly similar.

Chart 1
Wage Growth



Source: Current Population Survey, Employment Cost Index, and authors' calculations
Note: The CPS measure is the median growth of individuals' hourly wages. The ECI measure is the growth in average hourly wage and salary costs, keeping the mix of occupations and industries fixed over time. Data are aggregated to an annual frequency and are through December 2014. Gray bars indicate recession.

A previous *macroblog* post discussed details about the method of constructing the median wage growth data.

It's well known that wage growth varies across job characteristics such as occupation, industry, and hours worked as well as across worker characteristics such as education and age. For example, younger workers tend to experience higher hourly wage growth than older workers (even though their hourly wage tends to be lower), and part-time workers tend to have lower wage growth than full-time workers. We thought it might be interesting to look at wage growth for various job and worker characteristics. Are there any bright spots where the median growth in wages has approached prerecession levels?

The answer seems to be no, at least not for the set of characteristics we examined.

The following charts plot the annual time series of the median 12-month growth rate in the wages of workers with a given characteristic (occupation, age, etc.). Chart 2 depicts workers across three broad occupation groups: general-services jobs, production-oriented occupations discussed in our last *macroblog* post, and a category encompassing managerial, professional, and technical occupations (labeled “professional” in the chart).

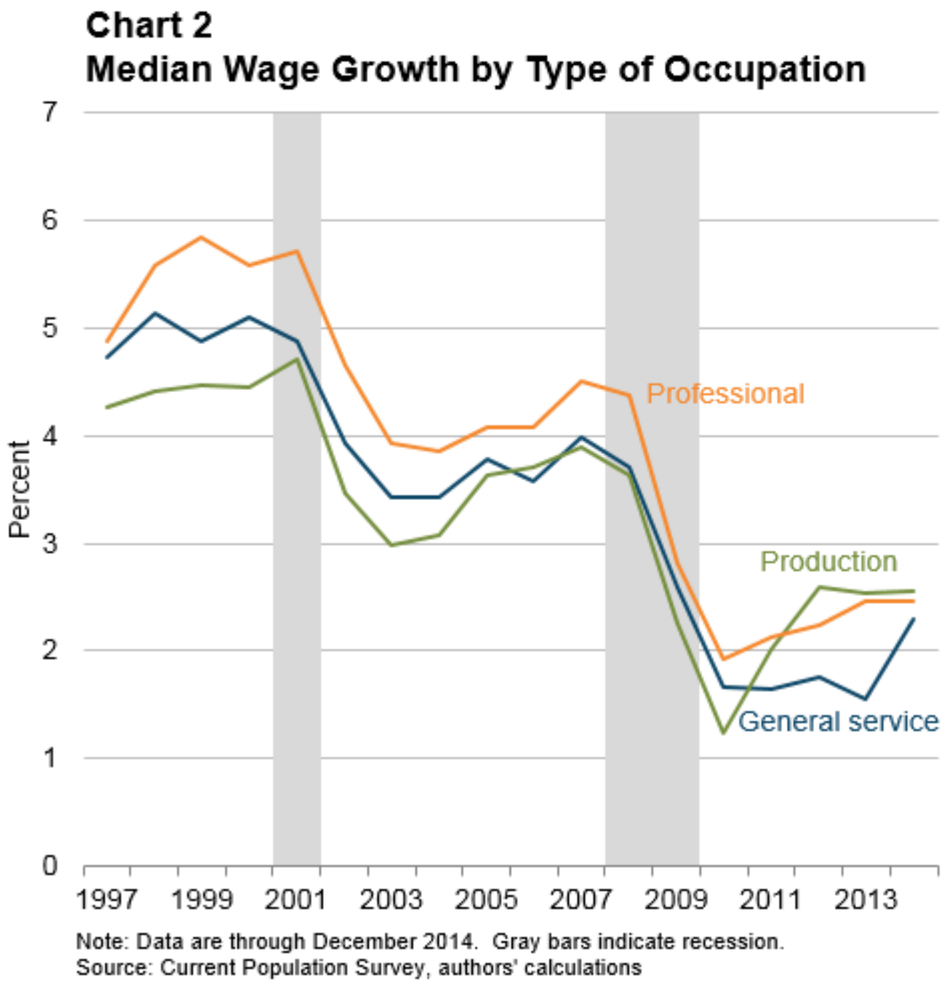


Chart 3 shows the median year-over-year wage growth of workers employed in goods-producing versus service-producing industries.

Chart 4 shows the median growth in the wages of individuals working full-time versus those working part-time.

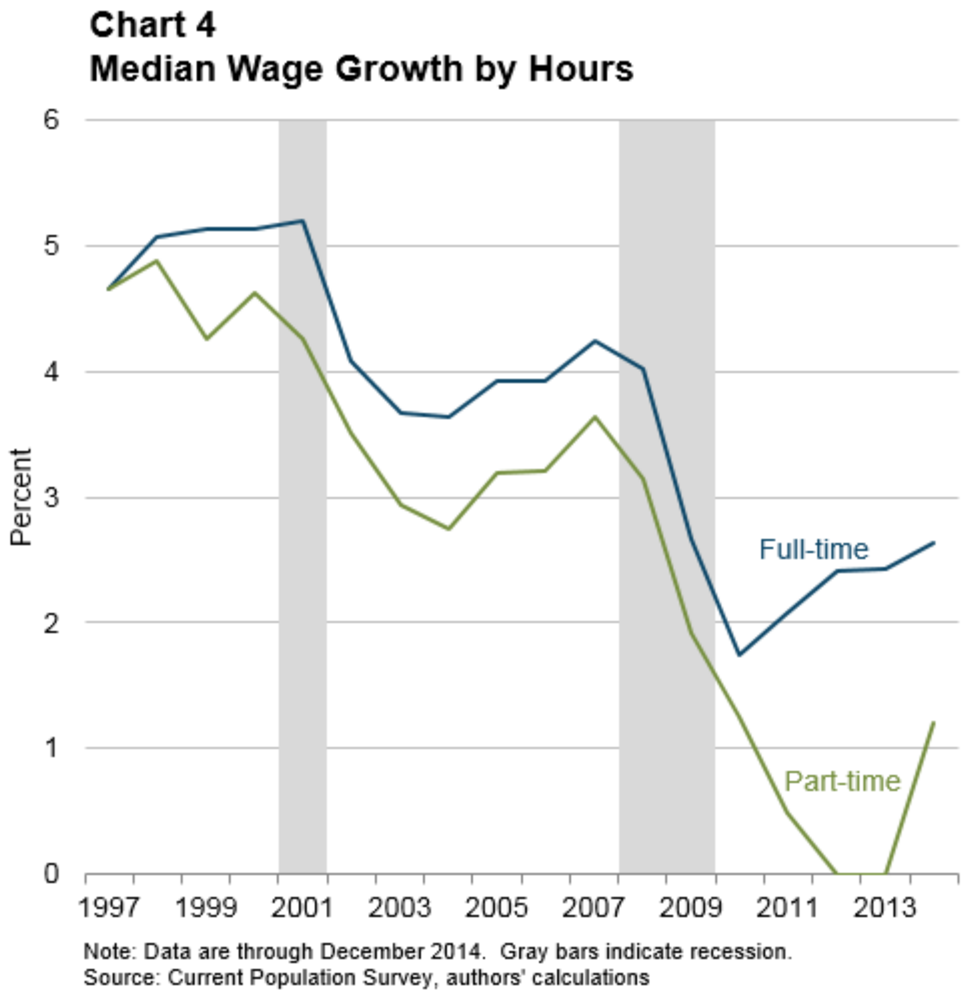


Chart 5 shows the median wage growth of workers with less than an associate degree and those with at least an associate degree.

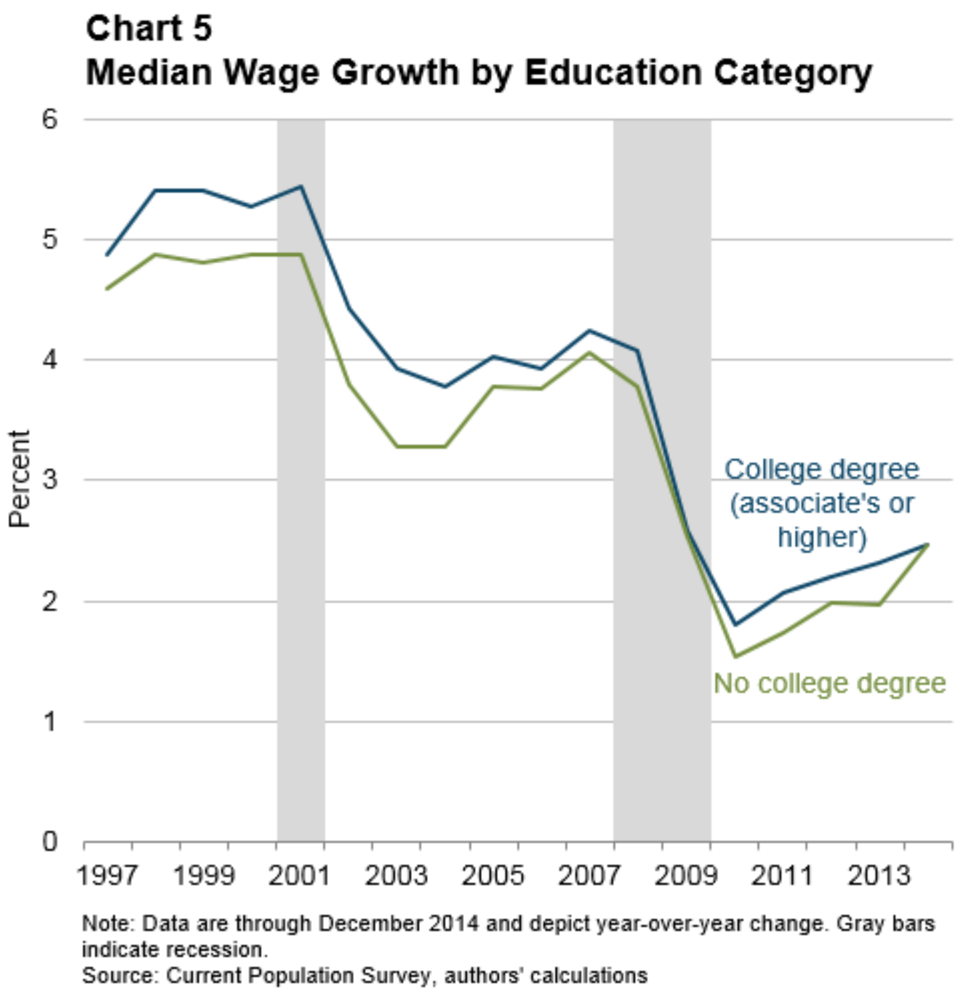
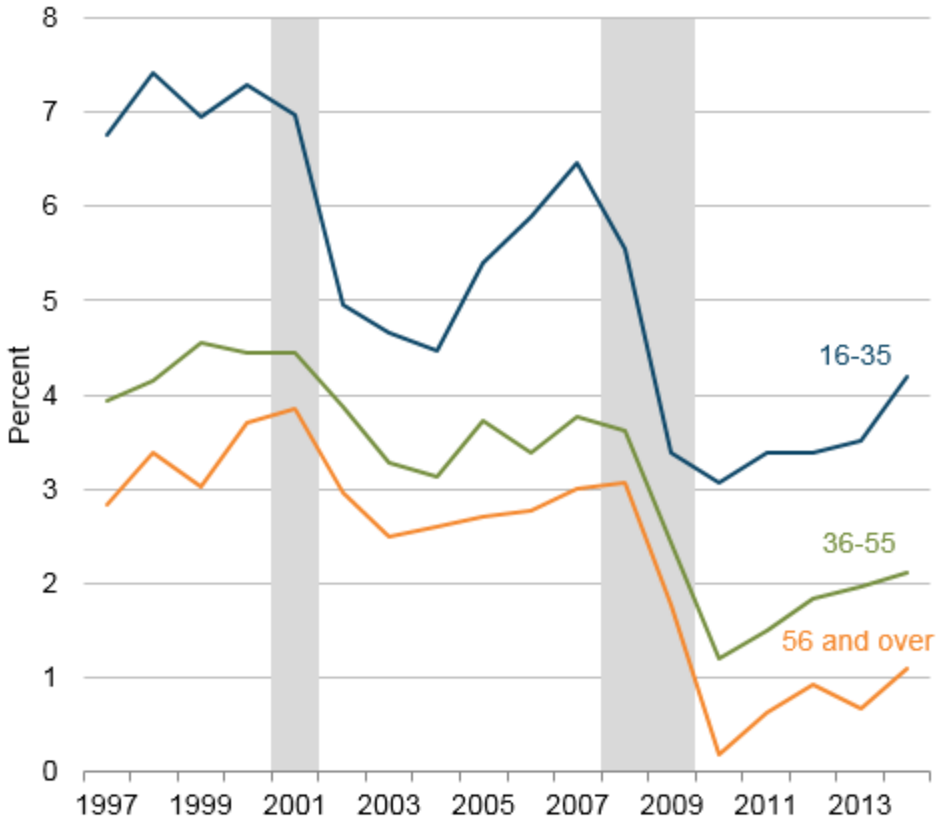


Chart 6 shows the median growth in the wages of individuals between 16 and 35 years of age, those 36 to 55 years of age, and those over 55 years of age.

Chart 6
Median Wage Growth by Age Group



Note: Data are through December 2014. Gray bars indicate recession.
Source: Current Population Survey, authors' calculations

We can sum up our findings by saying that median wage growth is higher for some characteristics than others, and the recent trend in wage growth is generally positive across characteristics. But none of the characteristic-specific median growth rates we looked at are close to returning to prerecession levels. Lower-than-normal wage growth appears to be a very widespread feature of the labor market since the end of the recession.

By John Robertson, a vice president and senior economist in the Atlanta Fed's research department, and

Ellyn Terry, an economic policy analysis specialist in the Atlanta Fed's research department

February 17, 2015 in Employment, Labor Markets, Wage Growth | Permalink