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Economics Group

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Employment: Beyond the Sound Bites—Reading the Signals V

Income for workers is the product of wages and hours worked. For both factors, their behavior in this cycle is quite different than in prior cycles, and this has limited income growth and the strength of the recovery.

Show Me the Money: Wages and Hours

A job can provide many things, like work experience to help build a career or a sense of self-worth. But, importantly to most of us who need to earn a living, it is a source of income. Wages and salaries account for the largest source of income in the United States, making up roughly half of personal income each month. The slow addition of jobs since the recovery began has constrained total income growth as payrolls remain 4.8 percent below their pre-recession level. However, the level of jobs is not the only sign of labor market straits. Growth in average hourly earnings has not kept pace with inflation over the recovery (top chart), and the average number of hours worked each week has yet to return to where it was before the downturn.

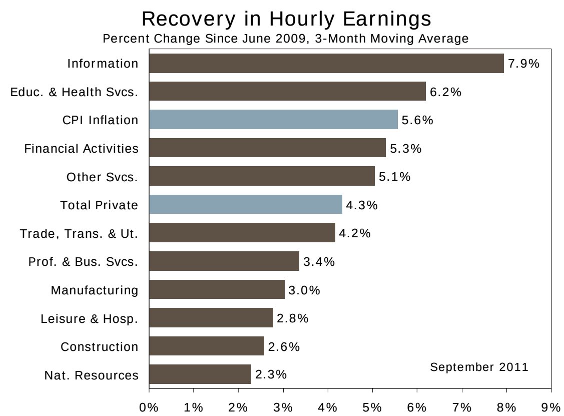
A Tough Labor Market Even for the Employed

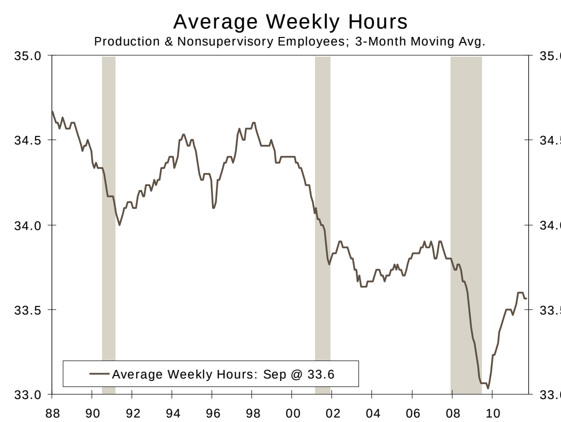
Labor market conditions have not only been hard on the 14 million unemployed, but also to many of those who are still working. Real average hourly earnings for private sector workers have fallen 1.2 percent since the recovery began, the steepest decline for this stage of the business cycle since 1964 when data were first collected. Slow growth in nominal wages is not surprising given the slack in the labor market. Wage growth has been slowest in industries with generally lower skill requirements and higher rates of unemployment, such as construction and leisure & hospitality (13.3 and 11.3 percent unemployment, respectively). The good news is that while weak wage growth will likely weigh on consumer spending, lower wage pressures may make the cost of labor relatively more affordable and, at the margin, encourage hiring by private firms.

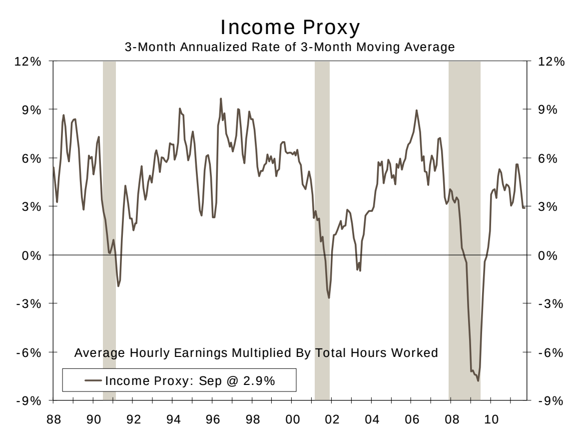
However, the number of hours worked each week also plays a role in determining labor market earnings and can influence employers' decisions on whether to add additional employees. Hours worked per week have trended down over time as the share of workers in the service sector—which tends to hire more part-time workers—has grown. Despite having improved since the recession ended, average hours worked has not reclaimed its pre-recession peak (middle chart). This may limit near-term job growth as employers can extend the hours of current employees before hiring new workers, which is a costly process even if wage pressures remain muted.

Income Growth: Still Below Pre-Recession Pace

Taken together, growth in the average amount a worker earns in a week has slowed over the last year (bottom chart), and is flat in inflation-adjusted terms since the recovery officially began in June 2009. With employment still a ways off from where it was before the recession, this indicates that the weak income growth seen in recent months is likely to continue. This is a driving factor limiting the pace of the national recovery and putting a lid on consumer confidence.







Source: U.S. Department of Labor and Wells Fargo Securities, LLC

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