

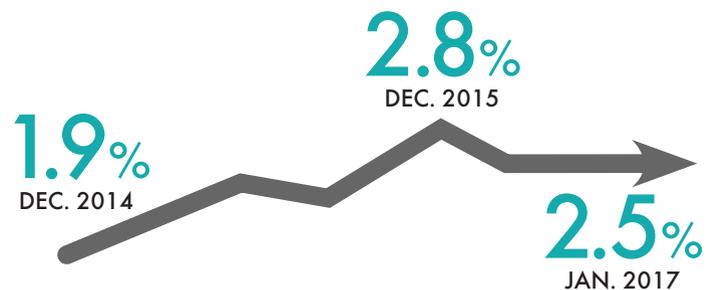
EARNING A LIVING

WHO'S CONTRIBUTING TO THE RECENT INCREASE IN WAGE GROWTH?

Wage growth for workers in the United States has accelerated gradually in the past two years, and a few industries are responsible for the increase.

AVERAGE HOURLY EARNINGS

In his recent research, Kansas City Fed Economist Willem Van Zandweghe says growth in average hourly earnings (AHE) accelerated 0.6 percentage point from December 2014 to 2017, in the U.S. private nonfarm sector, despite a marked slowdown in January.



WAGE LEADERS THAT MADE THE LARGEST CONTRIBUTIONS TO THE INCREASE

Van Zandweghe found that 0.1 percentage point of the 0.6 percentage point acceleration in wage growth can be contributed to "between-industry" growth. This is when the number of hours worked shifts from a low-wage industry to a high-wage industry, causing an overall increase in wage growth. Van Zandweghe took the remaining 0.5 percent increase in wage growth and divided it into the contribution of three nonfarm industry groups: wage leaders, wage laggards and other industries.



WAGE LEADERS

Contribution: 0.42 pp



OTHER INDUSTRIES

Contribution: 0.16 pp



WAGE LAGGARDS

Contribution: -0.06 pp

WAGE LEADERS IN THE U.S.

Manufacturing, construction and wholesale trade are the biggest contributors to the recent increase in wage growth. This is significant because these industries' share of hours worked is moderate compared to industries such as healthcare and education.



MANUFACTURING

Share of hours worked: 11.9%
Contribution: 0.22 pp



CONSTRUCTION

Share of hours worked: 6.2%
Contribution: 0.10 pp



WHOLESALE TRADE

Share of hours worked: 5.4%
Contribution: 0.10 pp

WAGE LAGGARDS IN THE U.S.

Education and healthcare combined contribute the largest share of hours worked among U.S. industries, but they lagged behind in wage growth. Professional and business services, and retail trade also account for a large share of hours worked; however, their contribution to the change in overall wage growth was negative.



EDUCATION & HEALTHCARE

Share of hours worked: 17.8%
Contribution: 0.11 pp



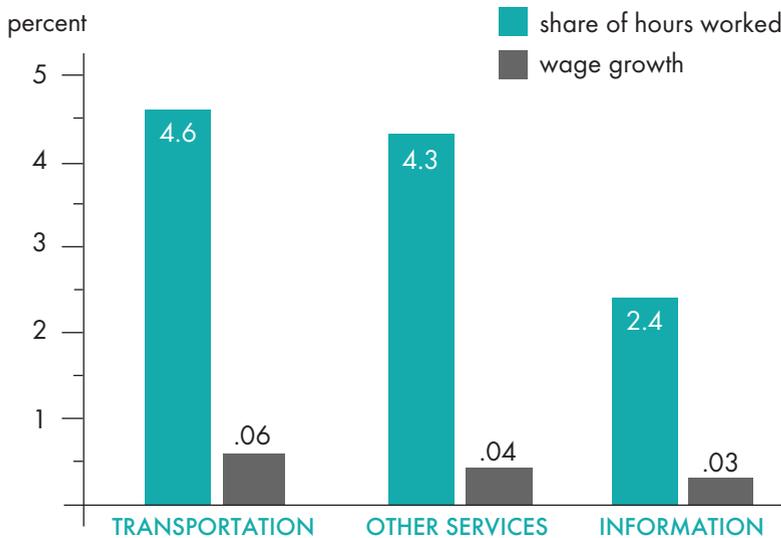
PROFESSIONAL & BUSINESS SERVICES

Share of hours worked: 17.5%
Contribution: -0.03 pp



RETAIL

Share of hours worked: 11.6%
Contribution: -0.05 pp



OTHER INDUSTRIES

Industries such as transportation, information, mining and logging, and utilities all experienced an increase in hours worked and wage growth. The increases were a small share when compared to the aforementioned industries; however, Van Zandweghe says large industries such as education and healthcare will always contribute more easily to wage growth than smaller ones.

A BRIGHT FORECAST

The recent increase in wage growth could be sustainable, Van Zandweghe says, because both wage leaders and wage laggards experienced similar growth in hours worked from 2011 to 2014, and in the past two years, wage laggards have seen faster growth in hours worked. The strong growth in hours worked suggests labor demand in the wage laggard industries will continue to rise at a brisk pace. As labor demand rises nearer to labor-supply constraints, wages in these industries may soon begin accelerating.

FURTHER RESOURCES

“Wage Leaders and Laggards: Decomposing the Growth in Average Hourly Earnings”
by Willem Van Zandweghe www.KansasCityFed.org/publications/research/mb