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

Contribution: 0.42 pp

OTHER INDUSTRIES

Contribution: 0.16 pp

WAGE LAGGARDS

Contribution: -0.06 pp

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 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.
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