



FEDERAL RESERVE BANK
OF SAN FRANCISCO

What's Up with Wages?

The City Club of Idaho Falls

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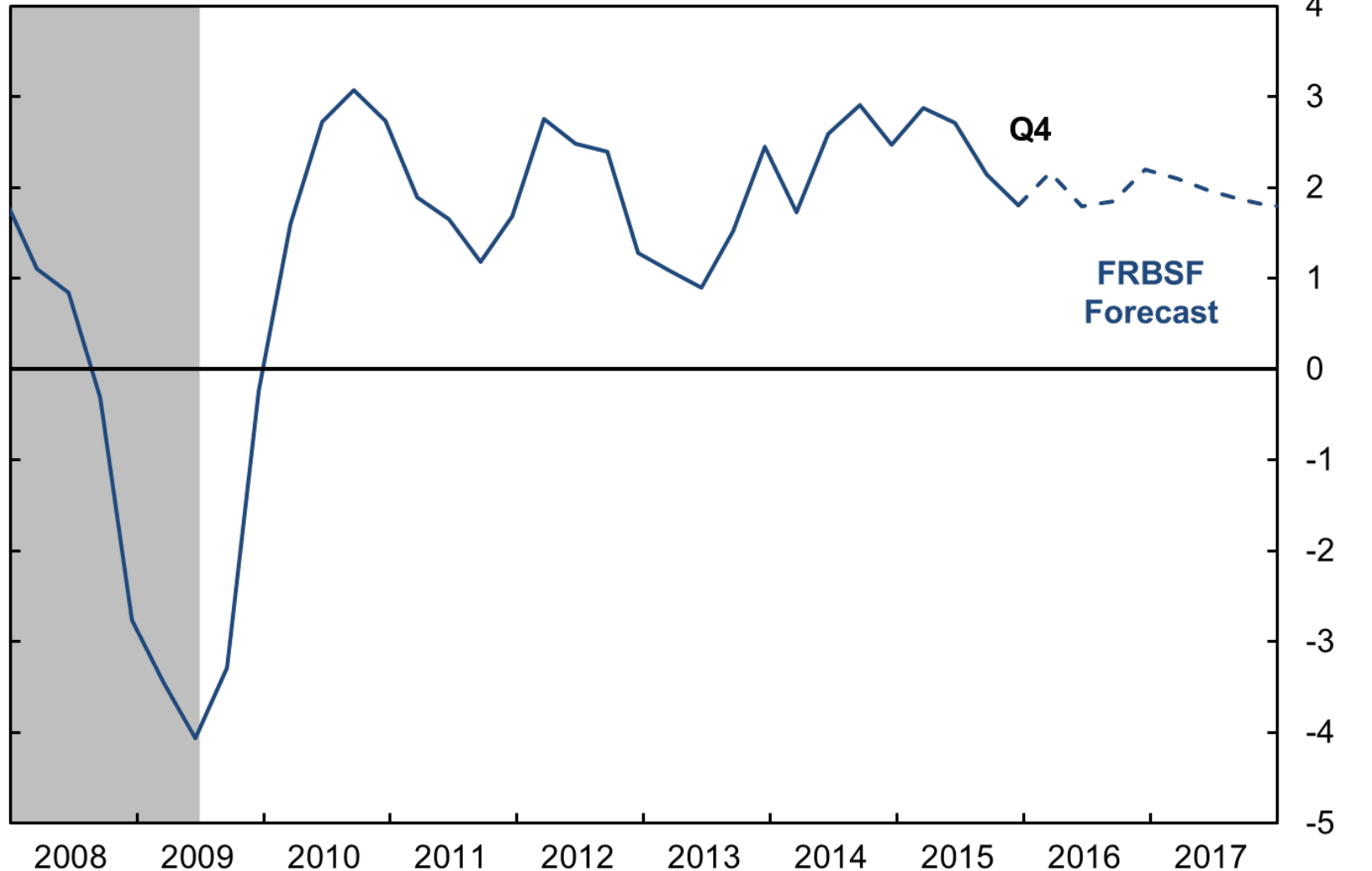
A look at the U.S. economy

Economy on a steady growth path

Real GDP

Percent change from 4 quarters earlier

Percent

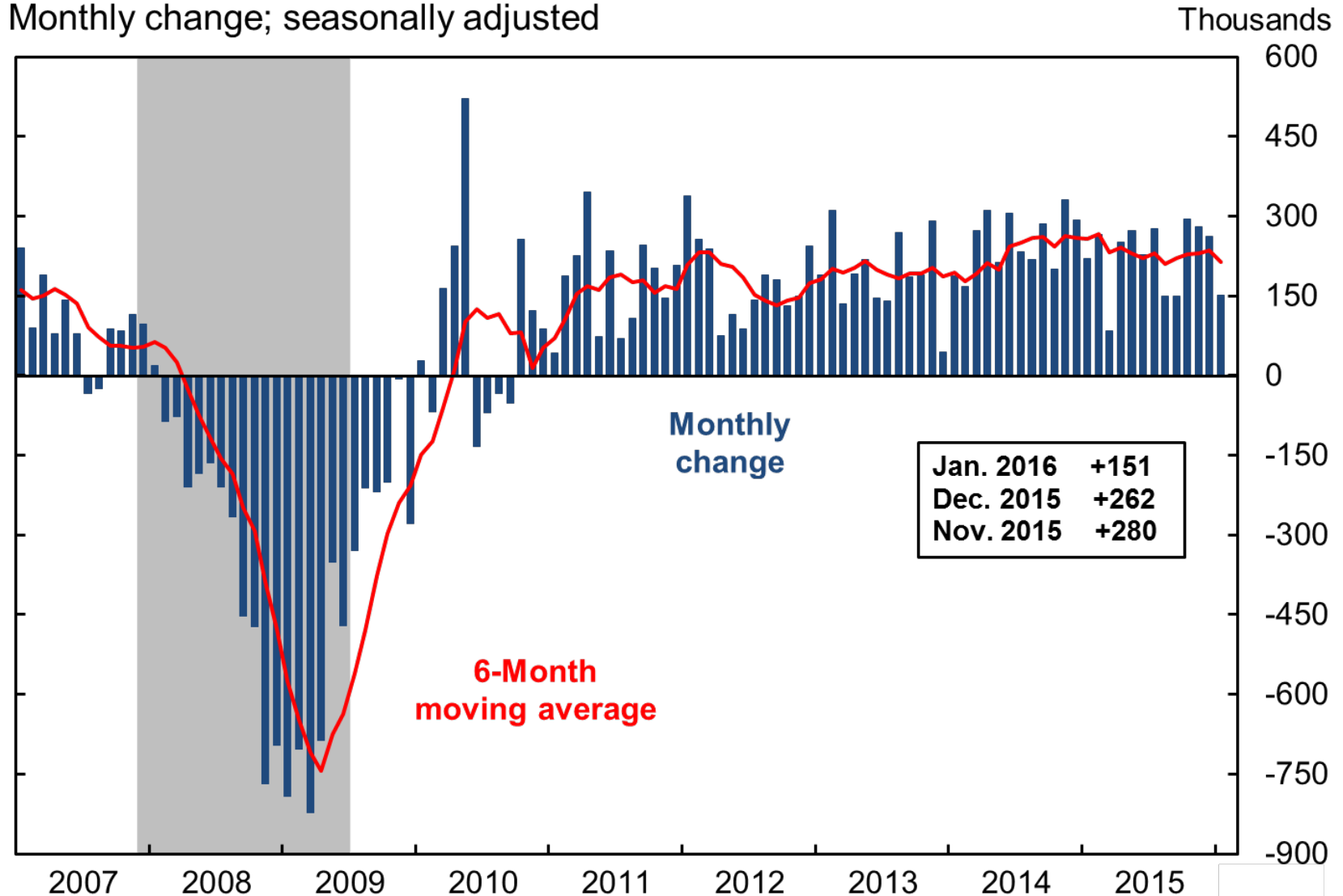


Source: Bureau of Economic Analysis and FRBSF staff

Trend in job growth remains strong

Nonfarm payroll employment

Monthly change; seasonally adjusted



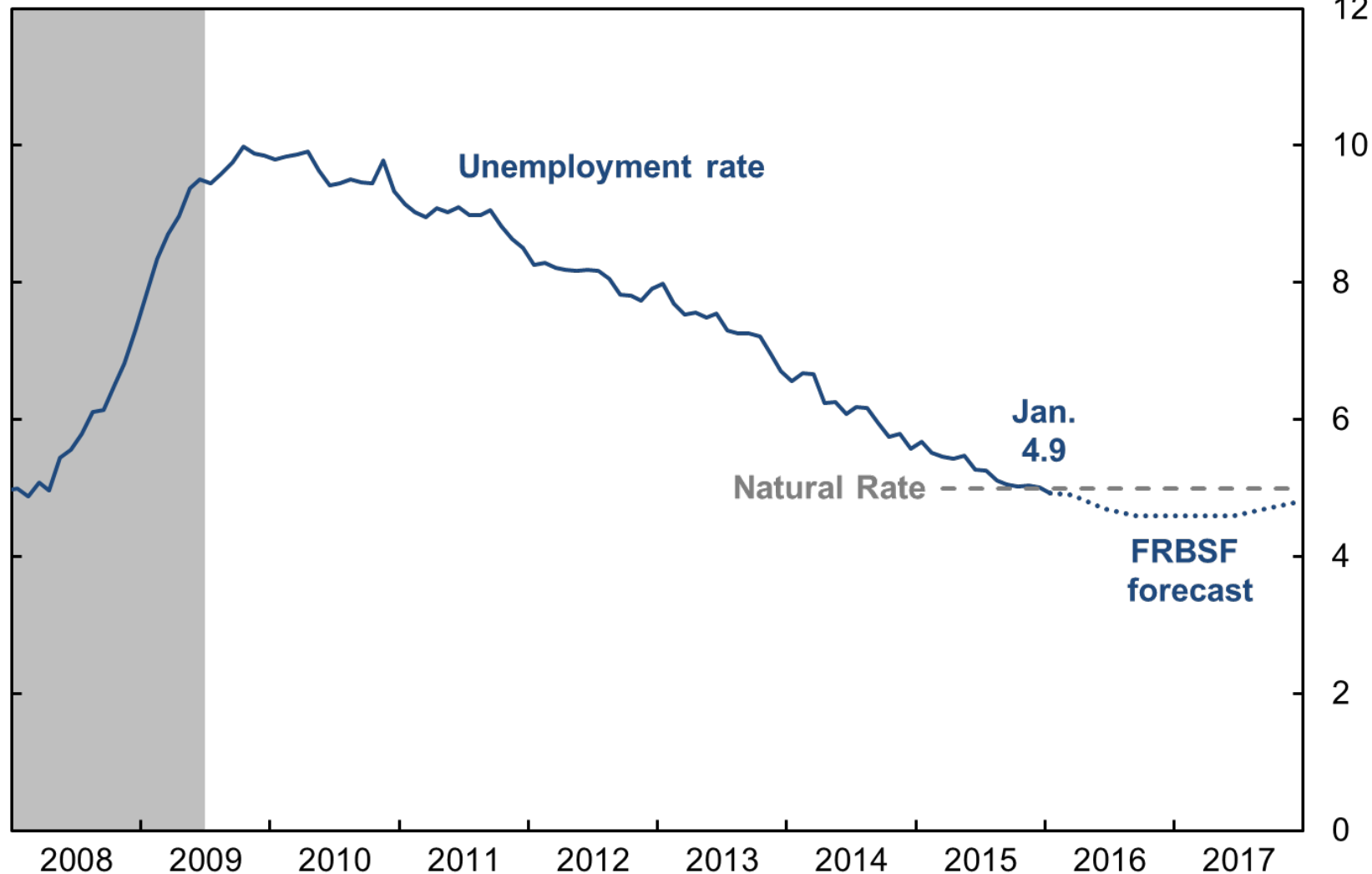
Source: Bureau of Labor Statistics

Unemployment below natural rate

Unemployment rate

Monthly; seasonally adjusted; forecast is quarterly average

Percent



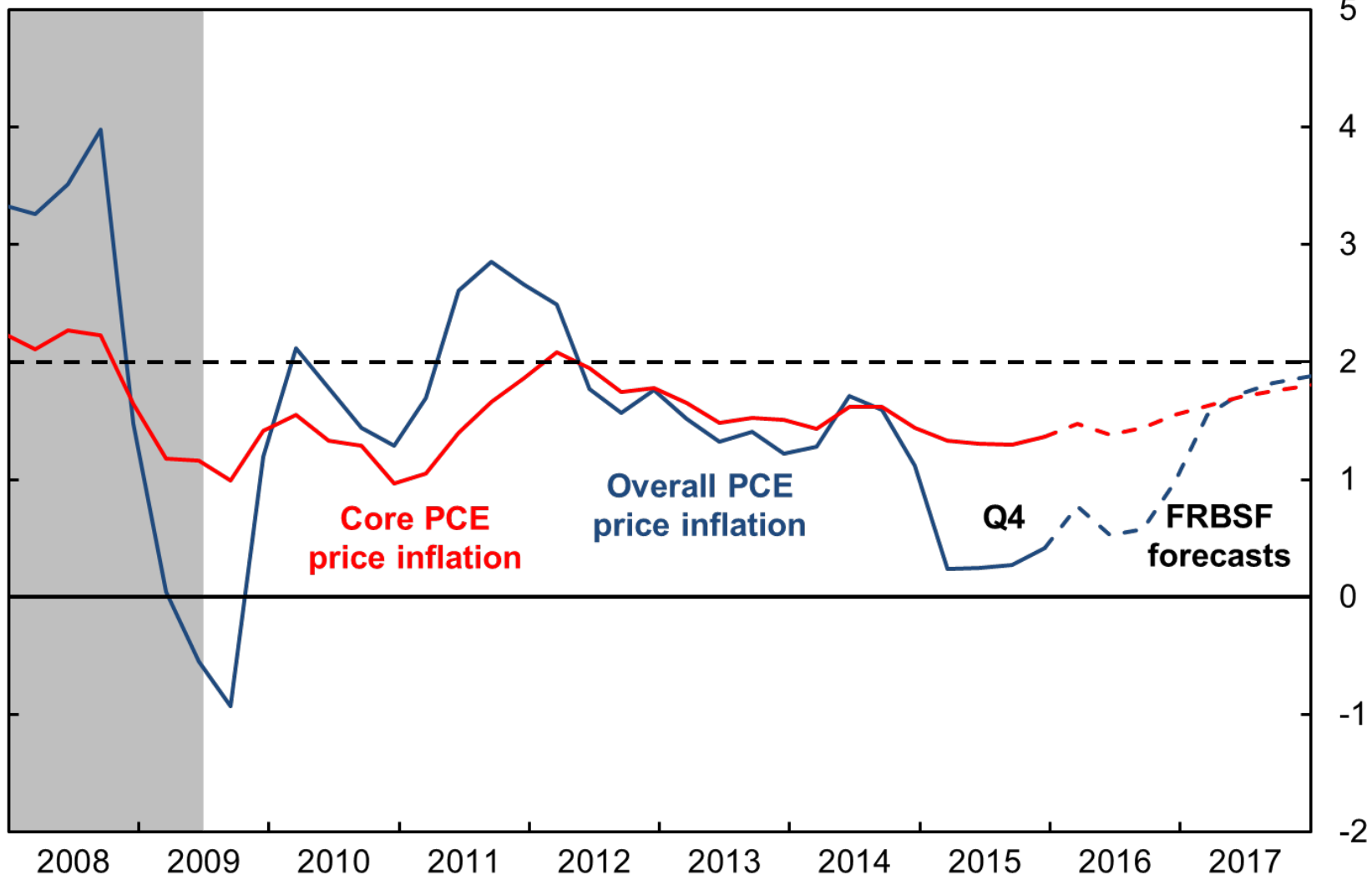
Source: Bureau of Labor Statistics and FRBSF staff

Inflation too low, but expected to rise

Personal consumption expenditures price inflation

Percent change from 4 quarters earlier

Percent



Source: Bureau of Economic Analysis and FRBSF staff

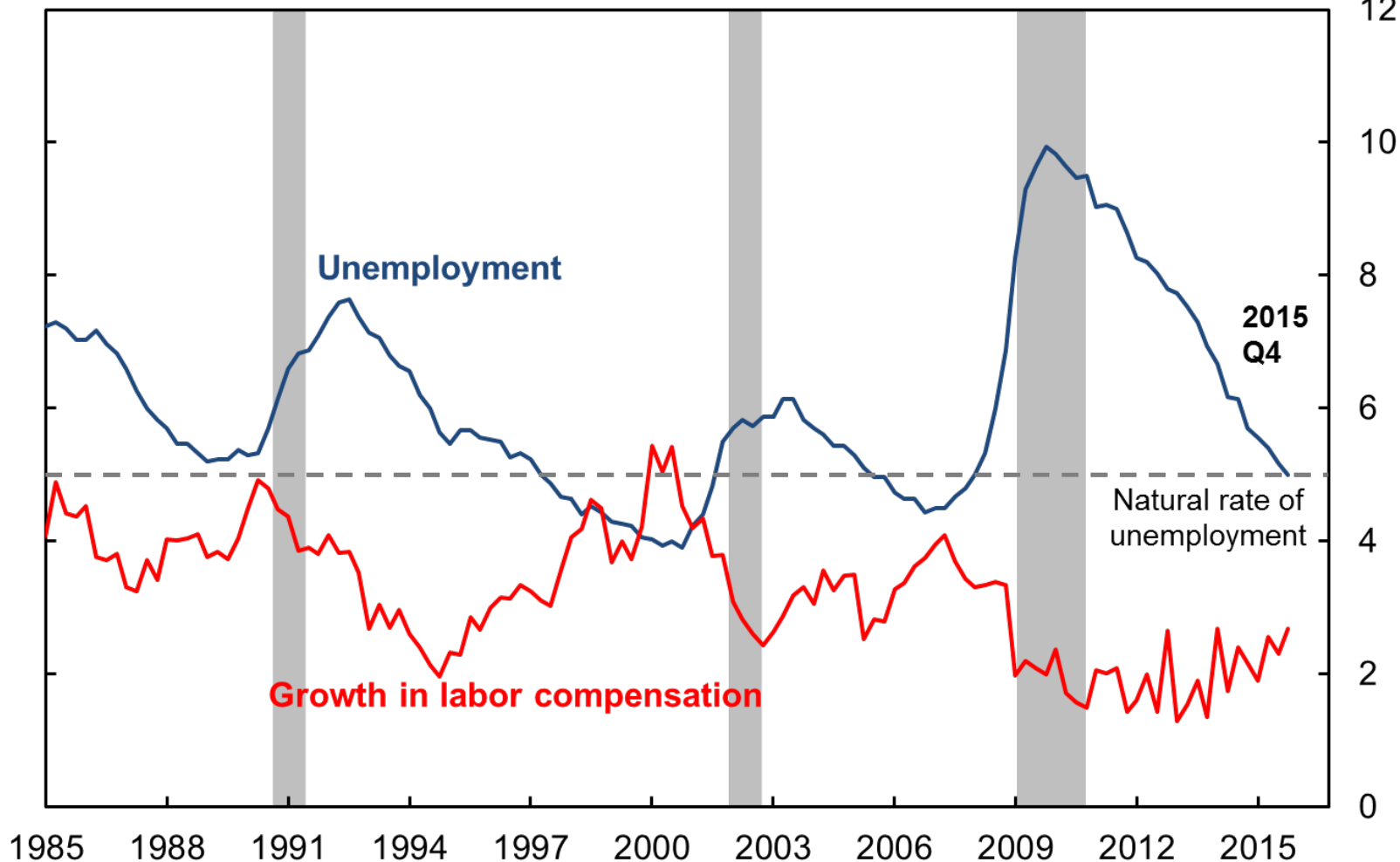
Ongoing concern: wage growth

Tepid wage growth despite less slack

Unemployment and growth in labor compensation

Labor compensation is percent change from 4 quarters earlier

Percent



Source: BLS, Haver Analytics, Author's Calculations

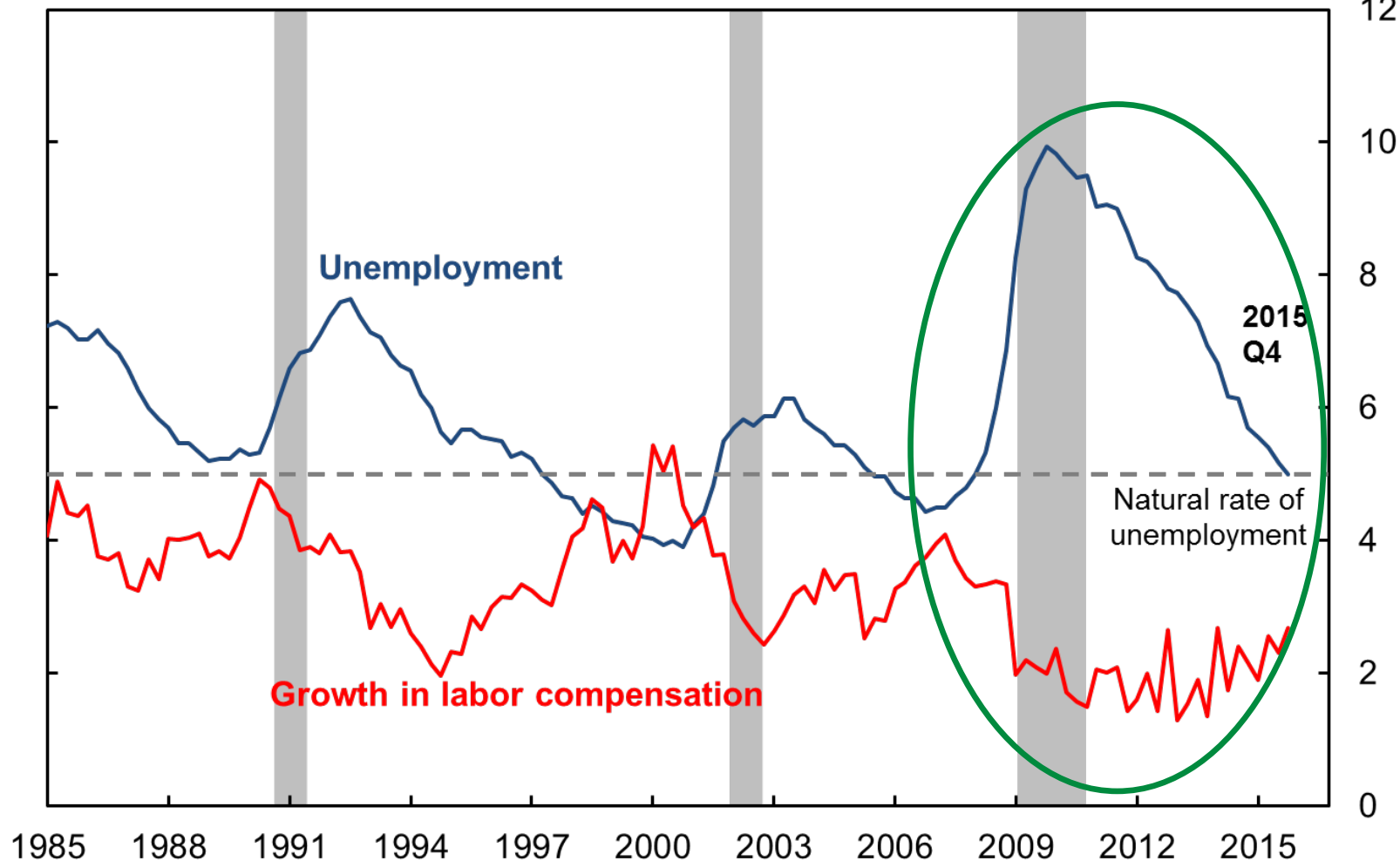
Compensation growth is an average of the growth rates of ECI, AHE, CPH, and ULC

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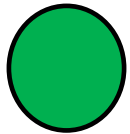
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Is this typical or terrible?

Typical labor market cycle

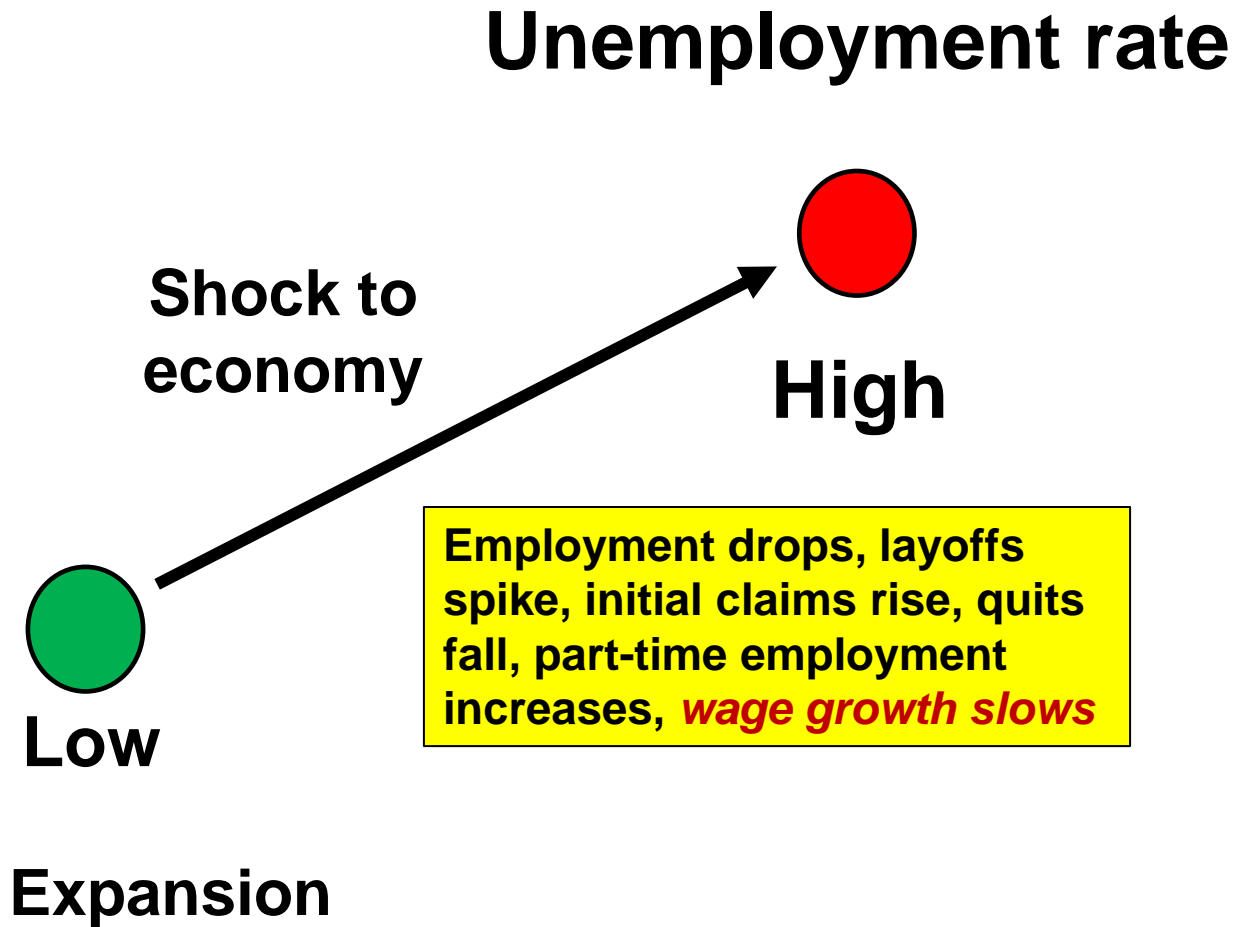
Unemployment rate



Low

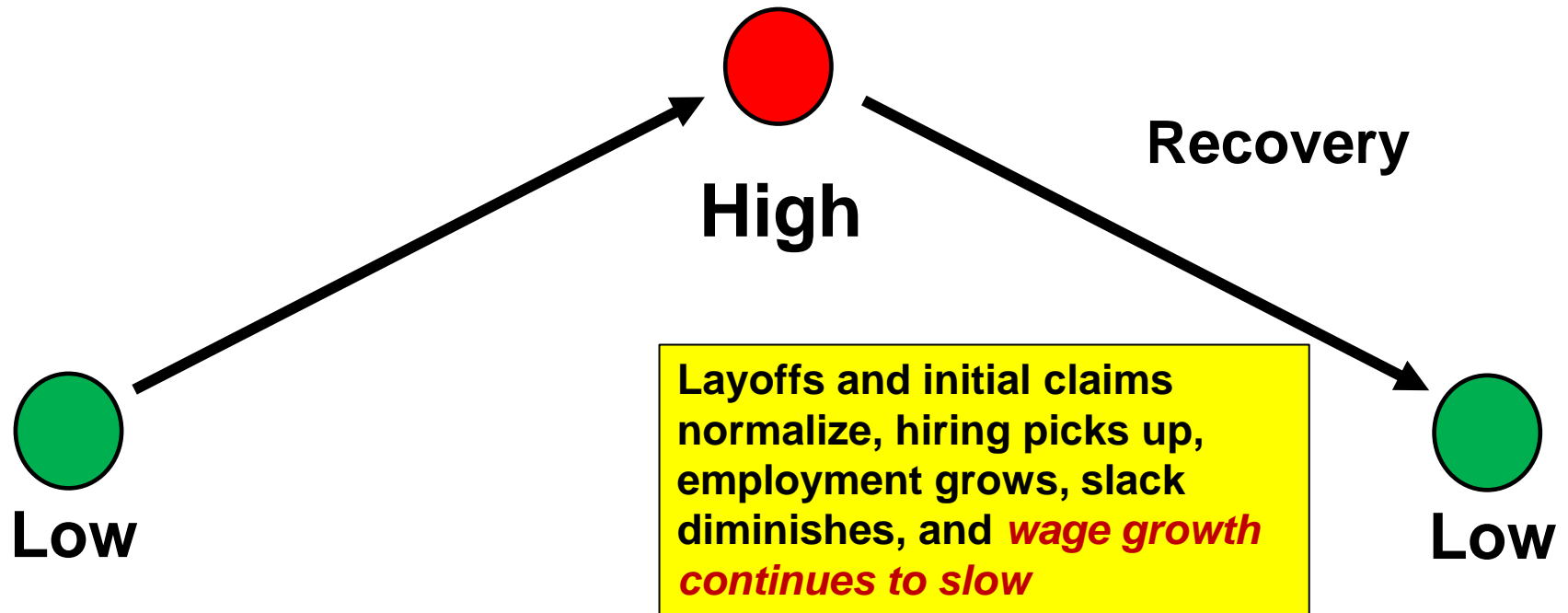
Expansion

Typical labor market cycle



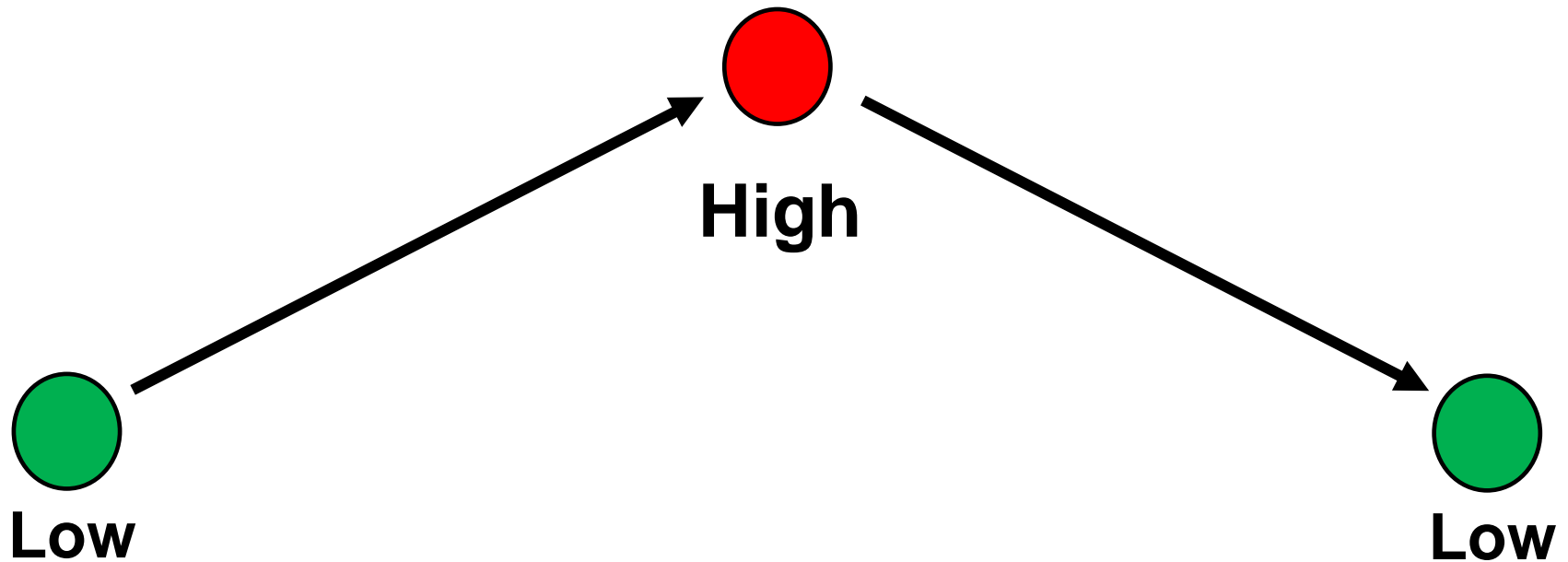
Typical labor market cycle

Unemployment rate



Typical labor market cycle

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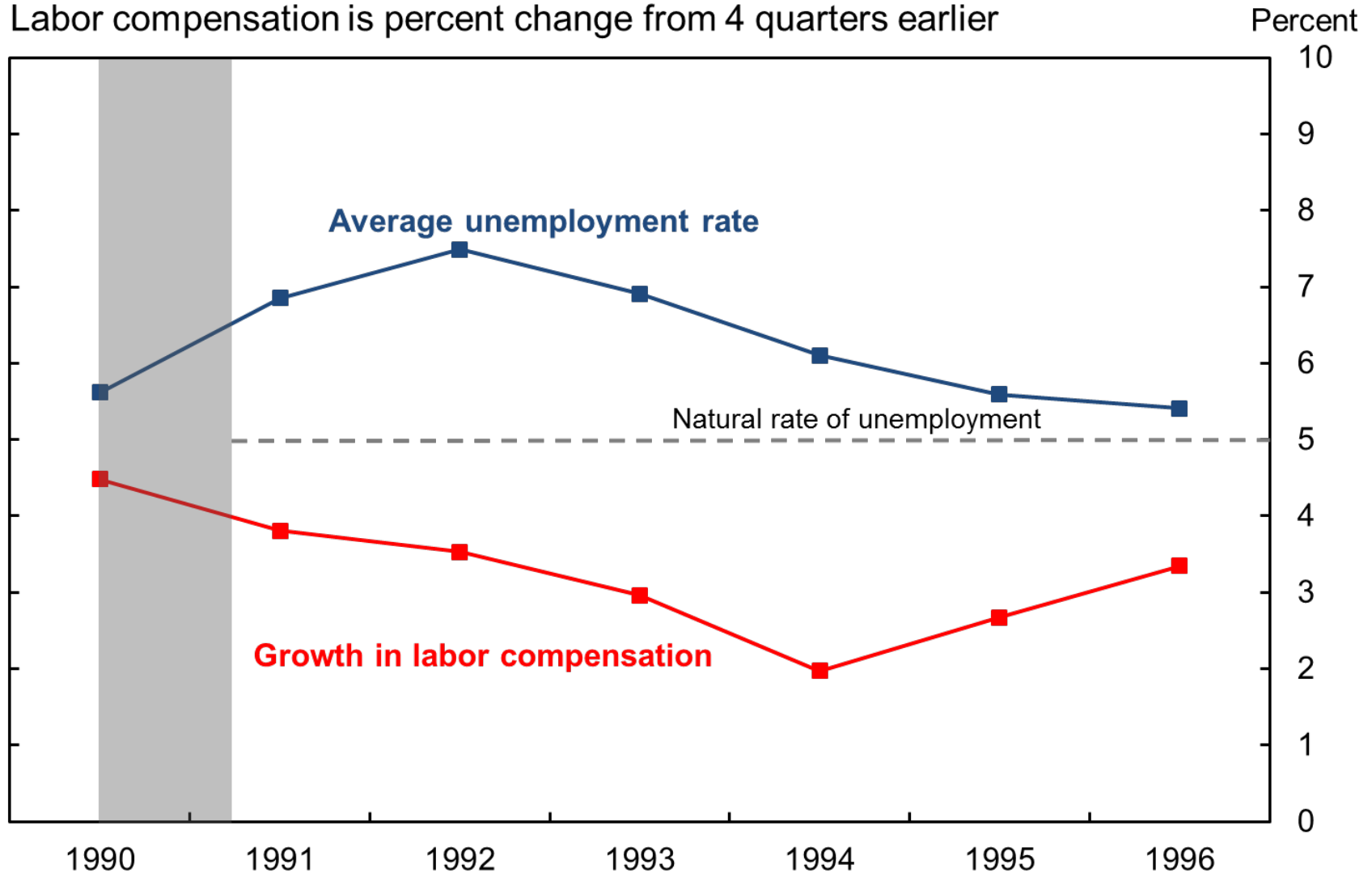
Wage growth picks up when labor market is all but recovered

Expansion

Look back to 1990s as a case study

Unemployment and growth in labor compensation

Labor compensation is percent change from 4 quarters earlier



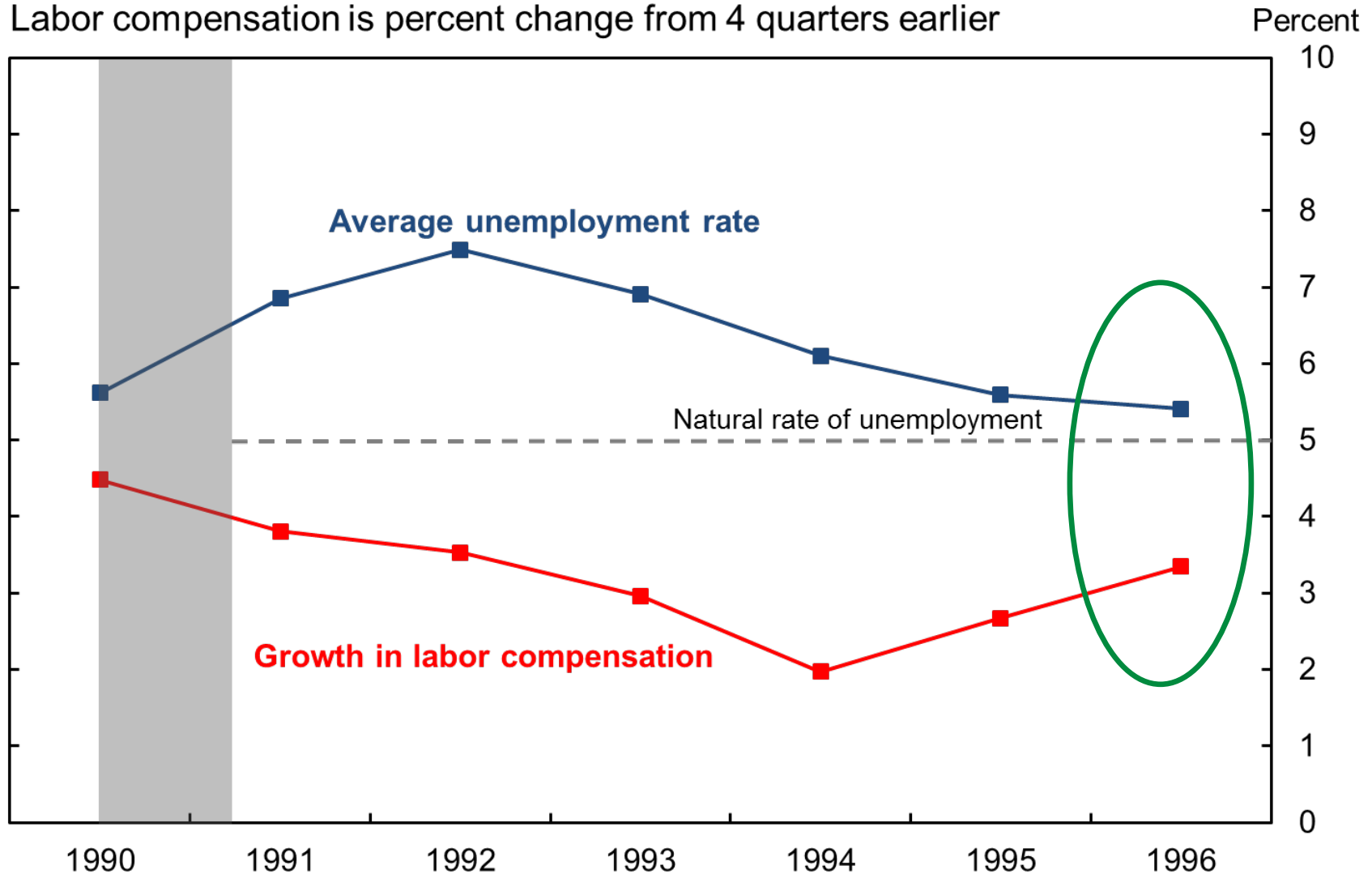
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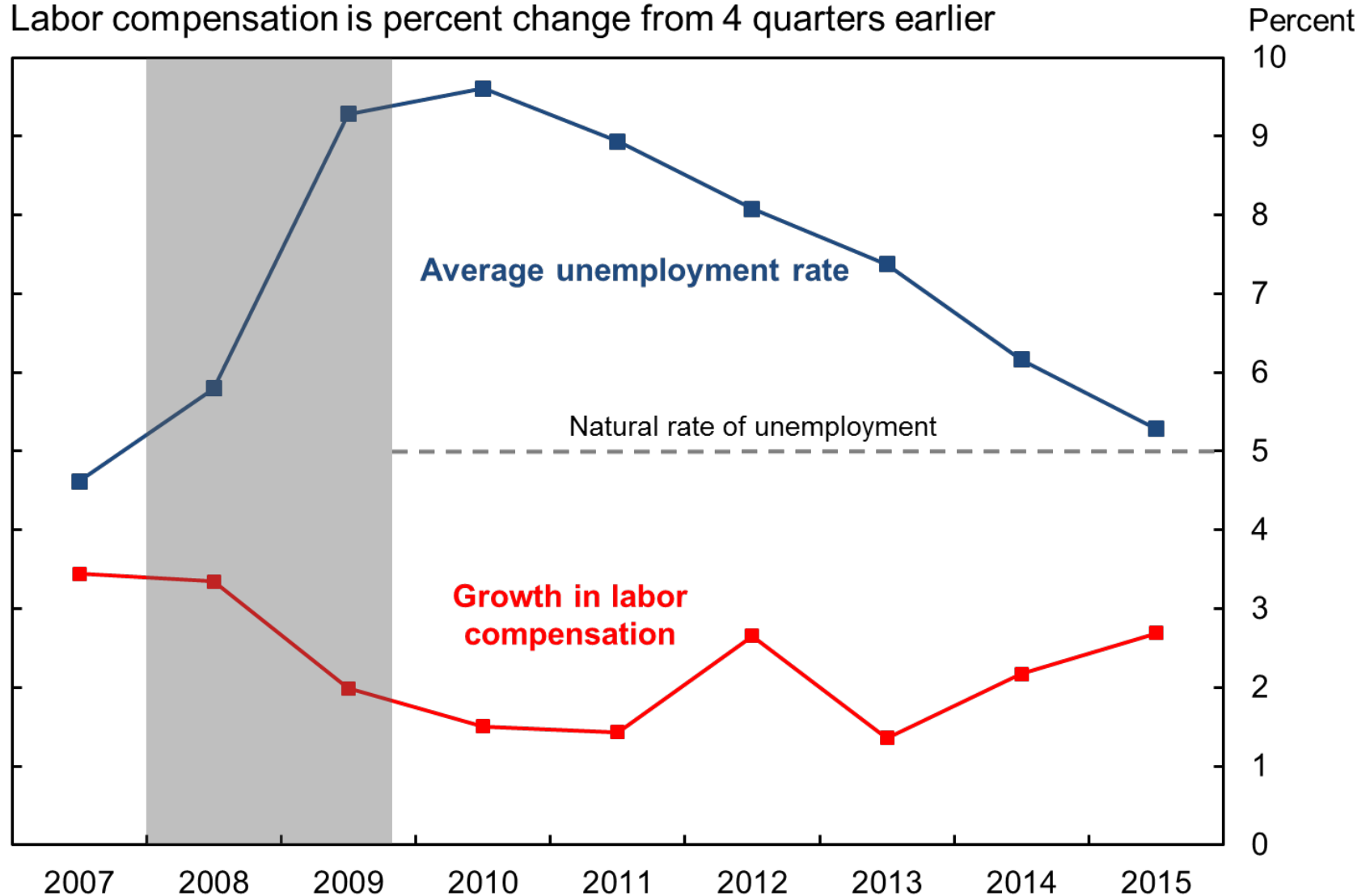
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Compensation growth is an average of the growth rates of ECI, AHE, CPH, and ULC

Current period not that different

Unemployment rate and growth in labor compensation

Labor compensation is percent change from 4 quarters earlier

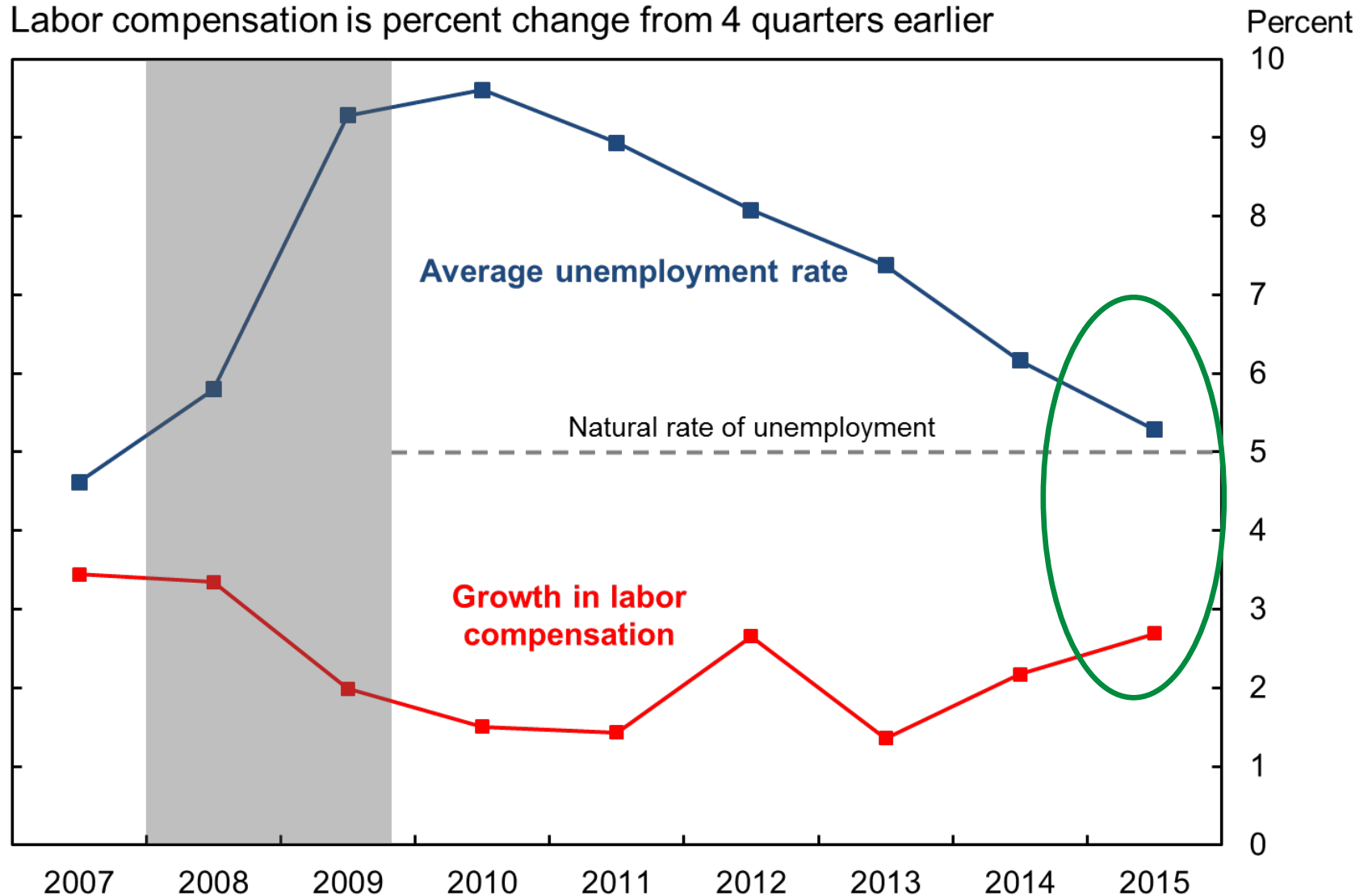


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Signs of life starting to emerge

Wage increases at major companies

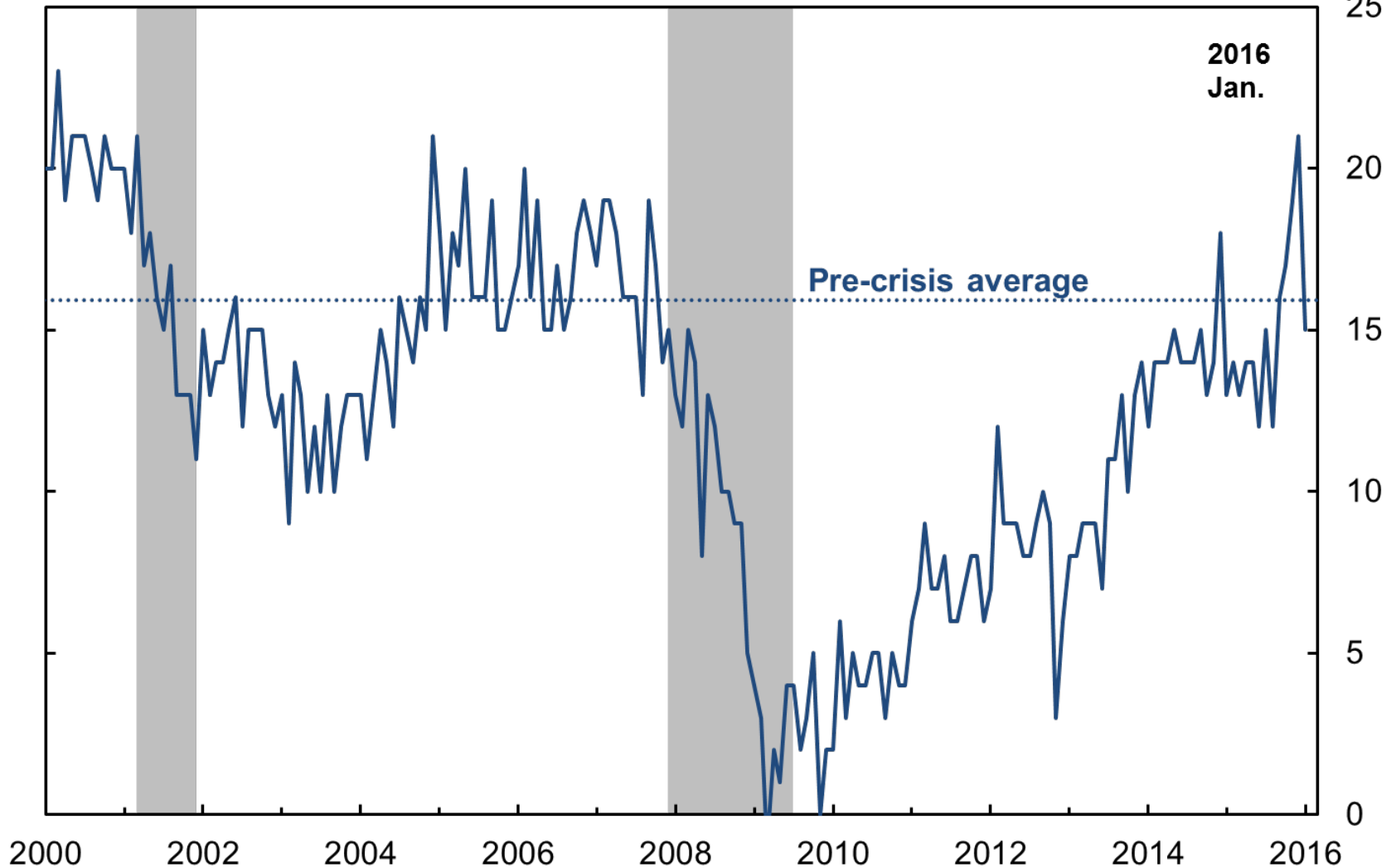


More small firms looking to raise wages

NFIB compensation survey

Small businesses planning to raise compensation in next 3 months

Percent



Source: NFIB, BLS/Haver

More money for new college grads

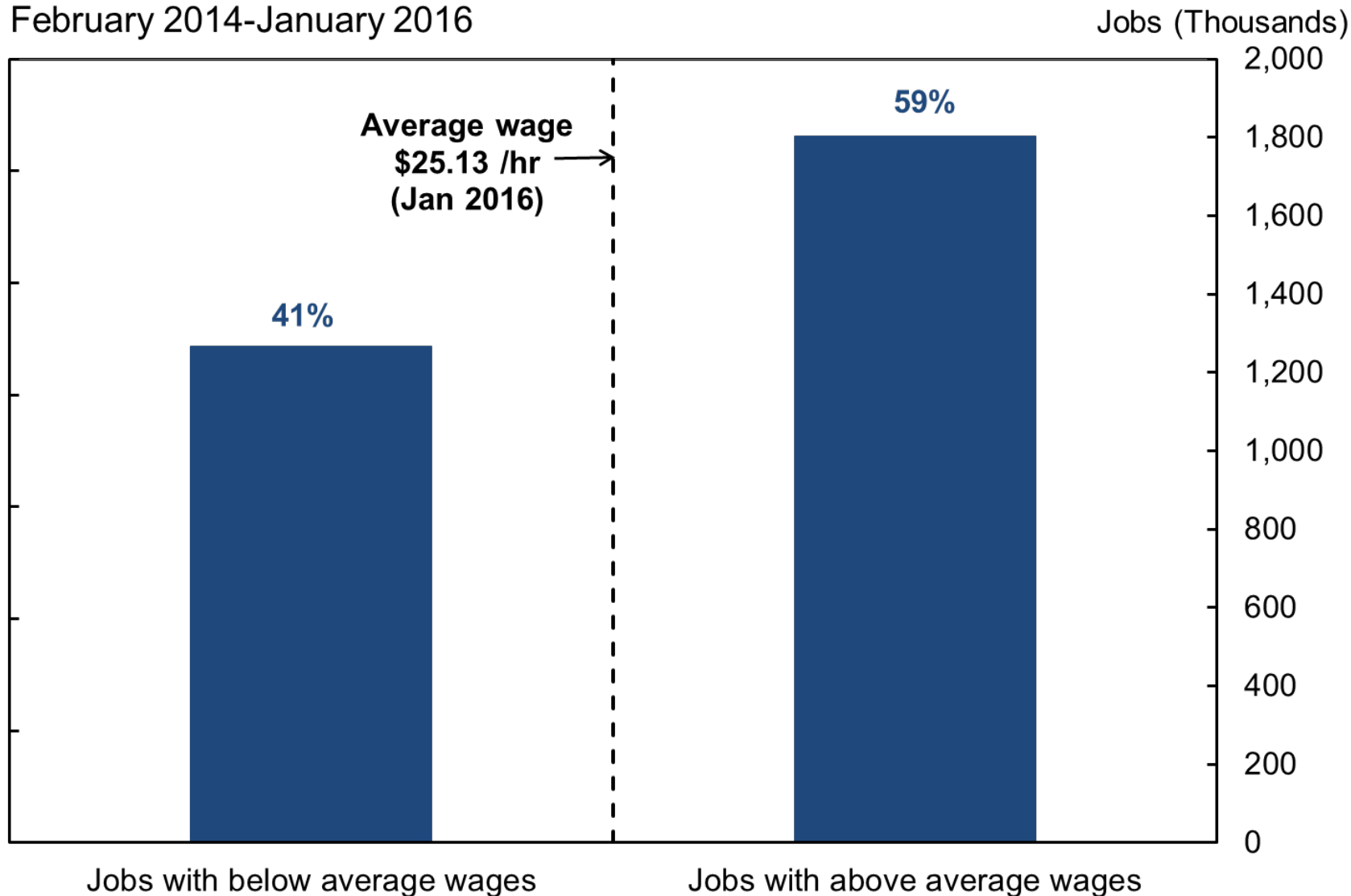
- National Association of Colleges and Employers *2015 Job Outlook Survey*
 - 67 percent of employers raising starting salaries
 - average increase: 3.7 percent
 - 54 percent offering signing bonuses, highest number in survey history
 - over half reporting the need to negotiate salary



More job growth in high wage sectors

Job growth in high and low wage industries

February 2014-January 2016



Source: Bureau of Labor Statistics, Author's Calculations

But this time *is* going to be different

Two factors slowing wage growth

Entry of low wage workers

- Better job market moves sidelined workers into jobs and moves part-timers to full-time

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- *Silver Tsunami* moves high wage workers out of employment and into retirement

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Impact

- Both these factors *pulling down* wage growth

Implications and the outlook

- Sluggish wage growth \neq bad labor market
 - wages are weak, in part, because the job market is good

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- Sluggish wage growth \neq bad labor market
 - wages are weak, in part, because the job market is good
- Looking ahead
 - wage growth should pick up as wave of entrants is fully absorbed into the labor market
 - but the drag from retirements will continue for some time

Questions