Published on Wednesday, May 11, 2005 by the Financial Times

Real Wages Fall at Fastest Rate in 14 Years

by Christopher Swann in Washington

Real wages in the US are falling at their fastest rate in 14 years, according to data surveyed by the Financial Times by the Economic Policy Institute.

Inflation rose 3.1 per cent in the year to March but salaries climbed just 2.4 per cent, according to the Employment Cost Index. In the final three months of 2004, real wages fell by 0.9 per cent.

The last time salaries fell this steeply was at the start of 1991, when real wages declined by 1.1 per cent.

Stingy pay rises mean many Americans will have to work longer hours to keep up with the cost of living, and they could ultimately undermine consumer spending and economic growth.

Many economists believe that in spite of the unexpectedly large rise in job creation of 274,000 in April, the uneven revival in the labor market since the 2001 recession has made it hard for workers to negotiate real improvements in living standards.

Even after last month's bumper gain in employment, there are 22,000 fewer private sector jobs than when the recession began in March 2001, a 0.02 per cent fall. At the same point in the recovery from the recession of the early 1990s, private sector employment was up 4.7 per cent.

“There is still little evidence that workers are gaining much traction in their negotiations,” said Paul Ashworth, US analyst at Capital Economics, the consultancy. “If this does not pick up, it raises the prospect of a sharper slowdown in consumer spending than we have been expecting.”

Economists are divided over the best source for measuring pay increases in the US, since the government releases three main measures. A gauge of average hourly earnings is released with the employment report. This rose by 0.3 per cent in both March and April and 0.1 per cent in February. Even with a slight rise in the hours employees are working, from 33.7 to 33.9, this suggests wages are struggling to keep pace with inflation. The gauge covers non-supervisory workers, about 80 per cent of the workforce.

The Bureau of Economic Analysis figures for personal income showed wages rising at close to 6 per cent in 2004 but slowing down since. This measure also showed wages rising by just 0.3 per cent in each of the past 2 months. This is a broader gauge and includes small businesses and professional partnerships, but it measures total corporate wage bill rather than wages per person.

The Employment Cost Index, seen by some as the most reliable measure, excludes overtime and professional partnerships.

###

Printer Friendly Version E-Mail This Article