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US jobs: Slim pickings

By James Politi Author alerts

Despite rising employment and productivity, wages remain stubbornly static, slowing the recovery

Up in arms: Barack Obama's campaign to raise the federal minimum wage failed in the face of Republican opposition

Last year, Monique Moshier, the owner of the Happy Cook, a small, upscale cookware and cutlery shop in the rolling hills of central Virginia, began feeling pressure to give her staff a raise.

She and her husband Steve Belcher had been struggling to find qualified applicants to work in their store, just as sales were booming along with a soaring stock market.

To avoid losing any of their workers, Ms Moshier and Mr Belcher began incrementally increasing pay. Over the past 18 months they raised the hourly rate for their 12 staff from an average $9.50 to $10.50. A few months ago they offered health insurance benefits for the first time.

"We really needed to do that to retain the employees we had," Ms Moshier, 34, says at her office, which is decorated with European vintage posters depicting a French café and Italian pasta.

"We felt there were less people out there, there was less to pick from," she adds.

The Happy Cook remains exceptional, however: wage growth in the US has been stuck at about 2 per cent a year, just about keeping up with inflation but well below the levels of up to 3.5 per cent that productivity would suggest. The quarterly Employment Cost index, another widely used measure of wages, has also seen consistently sluggish readings over the past year, cementing the belief that relatively stagnant real wages remain one of the big clouds still lingering over America's economic recovery.

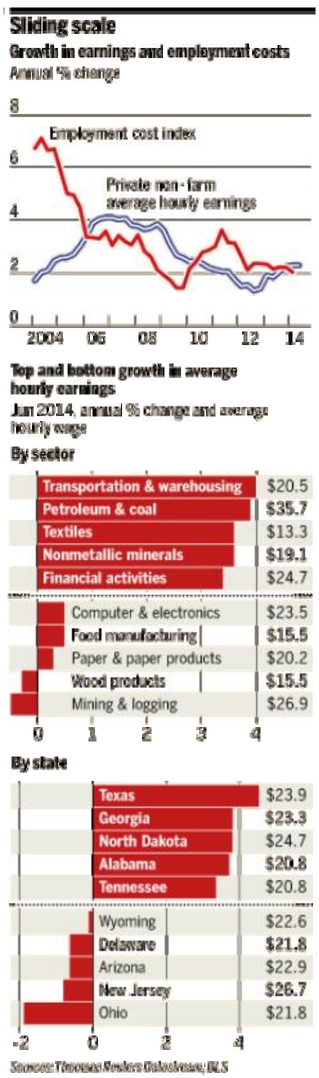
But from the Federal Reserve to the White House to Wall Street, there is a growing debate about when – or if – that might change as job growth accelerates across the US economy.

The implications are significant. If many more US employers begin acting like the Happy Cook, it would mark an important turning point, finally signalling that the world's largest economy is nearing its full potential and the labour market is reaching the point of saturation.

Widespread signs of rising wages would certainly feed expectations that the Federal Reserve will have to make an early move in 2015 to raise interest rates. Rates have been stuck at ultra-low levels for more than five years, and arguably the biggest test for Janet Yellen, who took charge of the US central bank this year, is to correctly time the first step to tighten monetary policy. Wages are tightly linked to inflation – often moving in tandem with it or lagging slightly behind – making it a key indicator on the Fed's dashboard.

The impact would be felt politically, too. For Barack Obama and congressional Democrats seeking to keep control of the Senate in the November midterm elections, some wage growth in the next few months might help voters feel better about the administration's economic policies. It would enhance their prospect of success at the ballot box and perhaps salvage their political agenda through 2016. But even if higher salaries fail to materialise in time for November, a solid revival in wages for most Americans over the next two years would improve sharply Mr Obama's mixed economic legacy.

So far, most of the evidence of expanding wage growth has been anecdotal. In North Dakota, the centre of the shale gas boom, a shortage of men willing to live in difficult conditions in the northern Great Plains and accept strenuous drilling jobs has driven salaries up by 3.8 per cent over the past year, much faster than the national average.



"We are starting to see some inflation on the wage front – though it is still modest," says Chad Moutray, chief economist at the National Association of Manufacturers, which represents many large US industrial companies that complain about a lack of highly trained engineers and welders for their increasingly high-tech factories. Manufacturing wage growth was 2.6 per cent, slightly higher than the American mean, in the year to June.

Of small businesses surveyed by the National Federation of Independent Business in June, 21 per cent reported higher worker remuneration, which was among strongest monthly readings since 2008.

The first place one would expect to see higher wage growth would be in cities and states such as Charlottesville and Virginia, which are economically healthy with unemployment rates well below the national average of 6.1 per cent. But even there, aside from the Happy Cook, there is no overwhelming sense that workers can secure higher wages from companies that are desperate to hire or keep them. Virginia has an unemployment rate of 5.1 per cent but average hourly wages in the year to May 2014 declined by 0.1 per cent.

"I am not seeing a huge demand for increased wages," says Joyce Robbins, the founder of a staffing and recruiting company in Charlottesville. "I am still seeing a lot of people who are thankful to get a job." The city's economy is dominated by education and healthcare associated with the University of Virginia but also includes big contributions from defence and tourism and from financial services groups catering to old Wall Street money in town.

Hunter Smith, the owner of a new craft brewery downtown, contends that he is feeling no pressure to increase his employees' salaries. "We have been in the good position of a lot of people wanting to come to us because there is the novelty and lifestyle associated with making beer for a living – and people are really into that," Mr Smith says.

Economic theory would suggest to Mr Smith that he will not be in that comfortable position for much longer. Most economists, including those at the Fed, believe the US economy will reach full capacity when the national unemployment rate drops to between 5 per cent and 5.5 per cent, which is not far away. At that point, companies should have to start raising pay.

But many contend that recession has inflicted such lasting damage on the US labour market – from high levels of long-term joblessness to declining participation in the labour force to the idling of construction workers – that it will take a long time for workers to regain any bargaining power. Wages may not accelerate in a big way until well after the US reaches full employment.

"There are some people who are now talking as though we will very quickly get to overheating and wage inflation is just around the corner. This is rather strange," says Adam Posen, president of the Peterson Institute for International Economics, a Washington think-tank. "One would certainly hope that at some point if you are approaching full employment, there should be some upward pressure on wages, but if anything this recovery is unusual because we have seen almost none," he adds.

From a structural point of view, one of the biggest concerns is that the US economy has become more skewed towards low-wage jobs such as retail and hospitality, compared with high-wage work such as advanced manufacturing, in recent years.

The National Employment Law Project, a liberal advocacy group in Washington, found that low-wage work accounted for 22 per cent of the job losses during the recession but 44 per cent of the gains since then. High-paying jobs, which accounted for 41 per cent of losses during the recession, only accounted for 30 per cent of gains now. "Until the quality, not just the quantity, of US job creation improves . . . the US will not be able to wake up from its economic nightmare and move itself forward," Daniel Alpert, an investment banker and managing partner at Westwood Capital, wrote in a note to clients this month. Josh Mitchell of the Urban Institute, a think-tank in Washington, said the problem is demographic. Baby boomers who were paid good salaries are retiring and leaving the workforce, being replaced by less expensive, less experienced, younger workers who are being paid less.

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And there is a behavioural component as well: researchers at the San Francisco Fed last year found that employers are generally slow or reluctant to adjust wages in response to changing economic conditions. During the depths of the downturn, many businesses hesitated to cut salaries, leading to "pent-up wage cuts" that are now keeping a lid on wage gains even as unemployment drops.

At the Federal Reserve, Ms Yellen also seems to share the scepticism about looming wage growth. She says there is still spare capacity in the labour market and it is therefore too early to raise rates.

"While rising compensation or wage growth is one sign that the labour market is healing, we're not even at the point where wages are rising at a pace that they could give rise to inflation," she told Congress last week. "There is some room there for faster growth in wages and for real wage gains before we need to worry that that's creating overall inflationary pressure for the economy," she added.

Lewis Alexander, an economist at Nomura, says that for the Fed to begin raising interest rates, "getting some sense that broader wages are starting to pick up is the last piece of the puzzle". He does not expect wages to increase "all that fast" but he also does not believe they have to go up much for the Fed to initiate a tightening of monetary policy.

While the Fed grapples with how to link wage growth and interest rates, the Obama administration also has much at stake in the debate about US salaries. Last week, Jason Furman, chairman of the White House council of economic advisers, sought to highlight the most encouraging data on the topic, which show that workers in production and nonsupervisory jobs have seen slightly faster wage growth than overall American employees of about 2.3 per cent. But he still said "growing their wages" is the biggest challenge for many Americans.

The White House has spent a lot of effort this year to persuade Congress to raise the federal minimum wage from its current level of $7.25 per hour in the hope of forcing salary increases for low-wage workers where the economy is not doing so naturally. But Republicans have been opposed – on the grounds that it could hamper job creation – and the campaign has fallen flat.

Back in Charlottesville, Ms Moshier says her best-selling item as she increased wages over the past year has been the Vitamix, an American blender costing up to $650 in her store, which also carries high-end German knives and French pots.

Giving a bump in pay to her workers has not been too painful, she says.

"Our payroll has grown quite a bit but that's OK," she says. "We've had growth, so we're lucky. And not everyone is in that boat, so for them it would be a lot harder."

Minimum wage: Seattle sets the pace on the Pacific coast

Barack Obama may have failed to persuade Congress to support an increase in the federal minimum wage this year but the White House push has not been totally in vain. A host of states and cities run by Democratic administrations and legislatures have enacted their own minimum-wage increases in recent months. And in no place has the move to a higher minimum wage been as aggressive, and the debate so heated, as in Seattle, the largest city in the Pacific Northwest region and the home town of Amazon and Starbucks.

Ed Murray, who only took over as mayor of Seattle in January, quickly and successfully orchestrated an increase in the minimum wage to $15 an hour, nearly double the $7.25 an hour federal rate and the highest in the country. It tested the limits of how far wages can be raised forcibly without thwarting employment.

"Today we have taken action that will serve as a model for the rest of the nation to follow," Mr Murray said after the city council approved the measure last month. In nearby SeaTac, where the city's international airport is located, large hotels and parking lots have been complying with their own $15 per hour minimum wage since the beginning of the year.

While labour unions cheered, the measure attracted criticism from business executives who complained that it would inflict severe damage to the local economy. Opponents even mounted a petition to put the increase up for a vote in a local referendum, but the effort appears to be falling short.

Large companies will have three years to comply with the measure, while smaller businesses have seven years. The International Franchise Association, which represents the managers of fast-food restaurants such as McDonald's, launched a law suit challenging its members' classification as large employers. "It's unfair, arbitrary and discriminatory against franchise owners," says Steve Caldeira, chief executive of the IFA.

In response, Mr Murray said that it was a series of strikes by fast-food workers across the country that inspired the drive in the first place. "That was the straw that broke wage disparity's back in this nation," Mr Murray said. "[Franchises] are not the same as a local sandwich shop that opens up or a new local restaurant that opens up in the city."

Other cities on the Pacific coast are looking to emulate Seattle. San Diego has approved an increase to $11.50 per hour by 2017, and activists in Los Angeles aiming higher, for $15.

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