Wage Dynamics: Theory, Data, and Policy

NBER Wage Dynamics in the 21st Century
Panel Remarks
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The views expressed here are mine alone and do not necessarily reflect those of anyone else in the Federal Reserve System.
The Way It’s Supposed to Work

- Stronger growth
- Hiring
- Employment
- Wage inflation
- Price inflation
The Data: Unemployment and Wage Growth

Real wage growth and unemployment

- Median weekly earnings growth (left)
- Unemployment (right)

Notes: MWE series is shown as 4-quarter growth rates. Only data until March 2020 is shown.

Source: Bureau of Labor Statistics and Bureau of Economic Analysts
The Data: Unemployment and Wage Growth

Real wage growth and unemployment

Median weekly earnings growth (left) vs. Unemployment (right)

Notes: MWE series is shown as 4-quarter growth rates. Only data until March 2020 is shown.

Source: Bureau of Labor Statistics and Bureau of Economic Analysts
The Data: Wage and Price Inflation

Inflation and Wage Growth since 1970

Note: Series shown are 3-quarter moving averages.

Source: FRBSF calculations using data from Bureau of Labor Statistics and Bureau of Economic Analysis
A Number of Structural “Wedges” Cloud the Picture

- Wage Rigidities
- Declines in worker bargaining power
- Unmeasured compensation
- Employment composition

- Monetary policy
- Anchored expectations
- Decline in COLAs
- Industry strategic complementaries
But Within Cycle Dynamics Also Matter

**Unemployment rate**

**Good**
- Low

- Employment drops, layoffs spike, initial claims rise, quits fall, wage growth slows, involuntary part-time employment increases.

**Bad**
- High

- Layoffs slow and initial claims recover.
- Wage growth continues to slow.

**Recovery and Transition**

- Hiring recovers and payroll employment grows.
- Wage growth plateaus below trend.

**Good**
- Low

- Labor market tightens. Broad measures of unemployment decline.
- Voluntary turnover (quits) increases.
- Labor force participation recovers relative to trend.
- Wage growth picks up.
And Here There is Notable Asymmetry

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In downturn and early stage of recovery, adjustments are through quantities.

As labor market tightens, adjustment increasingly through prices (wages).

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Impact of Cyclical Composition Changes

Within-Group and Total Wage Growth (1997-2016)

Labor Supply More Elastic Than We Think

Civilian Labor Force Participation Rate, ages 25-54

Note: Data are seasonally adjusted.

Source: Bureau of Labor Statistics
Strong Sustained Growth Gets Into the Cracks

Job finding rate for women by race/ethnicity

Notes: Series shown are 12-month moving averages. Data are not seasonally adjusted data.
Source: FRBSF calculations from matched monthly Current Population Survey data
And Chips Away At Long-Standing Gaps

Wage Growth by Skill Level

Note: Series shown are 12-month moving averages of median wage growth for each category, hourly data.
What’s Needed?

• Deeper understanding of within cycle dynamics
  – Why they occur
  – How to quicken the pace towards recoveries (policies)

• More work on the cyclicality of the employer-employee matching process
  – Recruiting intensity of firms
  – Search intensity of workers

• More work that explicitly incorporates the micro evidence on worker labor market entry and exit decisions and worker-firm dynamics into macro models of business cycle dynamics