PA and U.S. Record Historic Wage Growth

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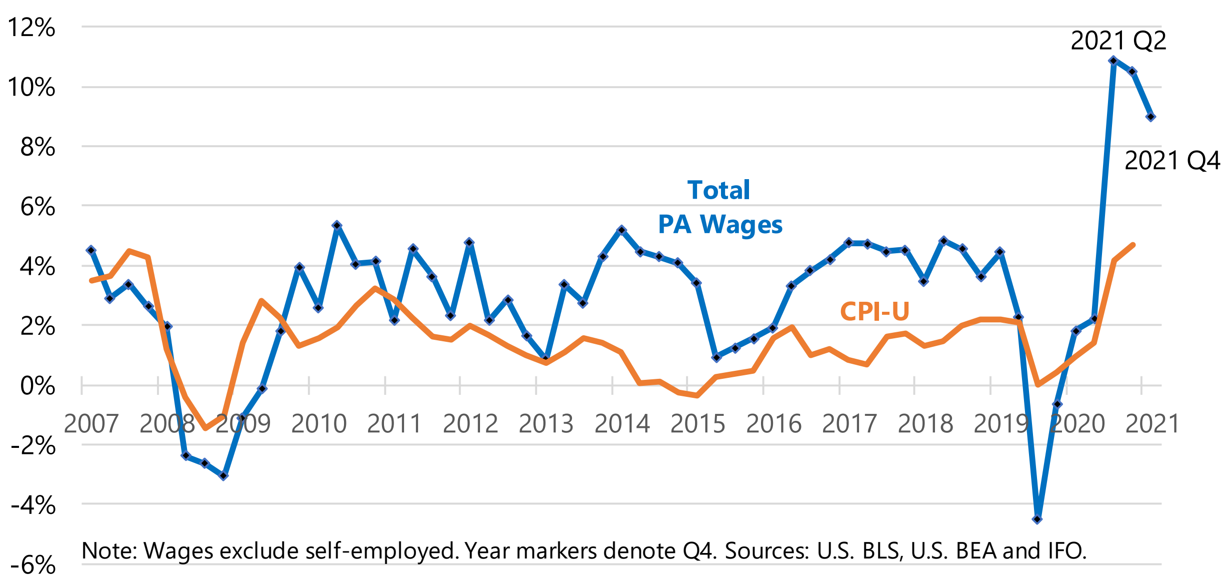
Last week, the U.S. Bureau of Labor Statistics (BLS) reported 2021 Q3 data for the U.S. employer cost index (ECI, wage compensation only) and the U.S. Bureau of Economic Analysis (BEA) published September data for total wages paid to U.S. workers.[1] The ECI data show the largest annual gain since publication of that series (2001) with 4.2% year-over-year (YOY) growth and 1.5% growth from the prior quarter (6.0% annualized). The total wages data show that wages paid in September grew 9.3% on a YOY basis (annualized), the highest pre-pandemic rate since December 1984. The total wages metric displays stronger growth because it is a broader measure that includes the impact of new jobs added from the prior year (or rehires) and employment shifting across industries (i.e., leaving a low-wage job for a higher one).

To examine wage trends for Pennsylvania, the graph below uses total wage data through 2021 Q2 published by the BEA. Those data are extended based on the YOY growth of withholding tax revenues, which are typically an accurate predictor of wage growth. Withholding data for 2021 Q3 suggest YOY wage growth of 10.5%, while data for October suggest wage growth of approximately 9% for 2021 Q4. Although some growth relates to the limited jobs recovery from COVID job losses, most growth in 2021 Q3 and Q4 is wages gains and, to a lesser extent, signing bonuses. If those quarterly growth rates are accurate, then total Pennsylvania wages will grow by slightly over 8% for the full calendar year, the strongest rate since 1979. That rate is much stronger than the recovery from the Great Recession, which recorded a stronger annual wage contraction, but over three consecutive quarters and not just one. (See graph.)

The graph also shows the YOY growth in the Philadelphia CPI-U through 2021 Q3. Employee compensation typically comprises about 56% of state Gross Domestic Product, or final sales. Given that large share, and the current ability of firms to push costs forward to consumers, most wage gains will likely be pushed forward to final consumers. That outcome would put continued upward pressure on prices and inflation. If ongoing supply constraints also persist, then it is likely that high rates of inflation will not prove transitory.

Annual Growth Rates: Pennsylvania Wages and CPI-U



Note: Wages exclude self-employed. Year markers denote Q4. Sources: U.S. BLS, U.S. BEA and IFO.

[1] See https://www.bls.gov/ect/ and https://apps.bea.gov/itable/index.cfm.