



## Economics Group

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## Job Quality and the Missing Middle

**Job growth over the past year has been led by high-wage industries, although growth among low-wage industries remains strong. Middle-wage industries continue to lag, leading to further job polarization.**

### Quality of New Jobs Improving

The unemployment rate is now near the Fed's estimates of full employment, but doubts over the health of the labor market still linger. One frequently cited concern over the course of the labor market's expansion has been the quality of new jobs. Updating our previous work on this issue (See *Are American Wages About to Accelerate?*, available on request) shows that the composition of new job growth has improved over the past year.

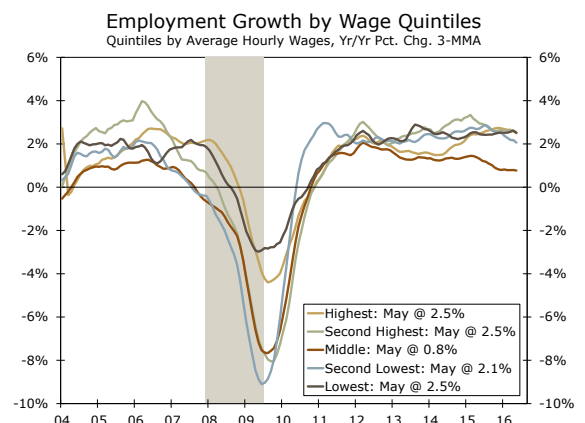
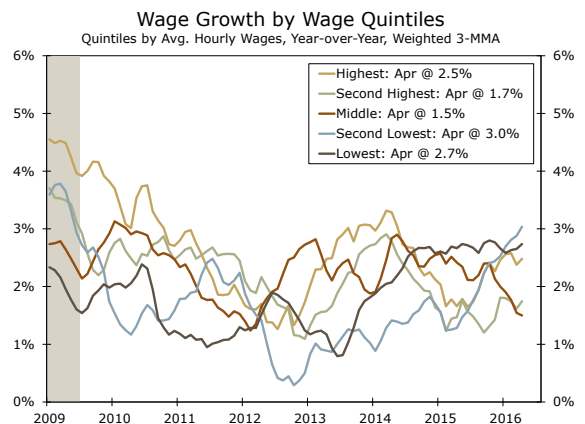
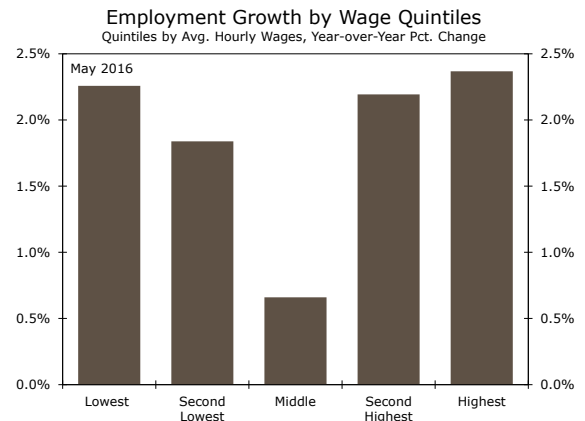
We grouped 75 industries into quintiles based on average hourly earnings in February 2010, when the labor market recovery began. As illustrated in the top chart, job growth over the past year has been strongest in the top-wage quintile. Following closely behind is the second-highest paying income quintile and the lowest-wage quintiles. Together, the top two quintiles have accounted for 47 percent of jobs added over the past year despite accounting for only 40 percent of employment. The outsized share of new jobs in higher-wage industries marks a break from the early years of the expansion when hiring in high-wage industries was closely in line with the group's employment share. Low-wage industries have actually accounted for a slightly higher share of new jobs added over the past year (48 percent), but were already a larger share of employment (44 percent) and therefore would be expected to account for a greater share of job gains.

### Low-Wage Industries Seeing Strongest Earnings Gains

Although low-paying industries continue to account for a sizeable share of new jobs, stronger wage growth over the past year gives some added support to workers at the lower-end of the pay spectrum. After trailing behind what were already better-paying industries for most of the expansion, the two lowest-paying quintiles have seen the strongest wage growth over the past year (middle chart). Higher minimum wage laws across many states have likely helped. That said, wage growth has been strongest in the second-lowest paying quintile of industries, which is further removed from the new minimums and consistent with small businesses continuing to report difficulty filling job openings.

### The Missing Middle

In comparison to lower-pay industries, wages in the middle quintile have held up fairly well over the labor market's recovery. That has changed over the past year, with growth in average hourly earnings in middle-wage industries slipping to 1.5 percent. More concerning, however, has been the consistently slower pace of job growth for this group since the recession (bottom chart). The polarization of job gains is not new to the current cycle. Jobs in middle-wage industries have fallen from 19.5 percent of employment in 1991 to 16.0 percent today and may help to explain some of the economic angst among voters this political season.



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