

Economics Group

Special Commentary

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Who Is Benefiting Most from a Tight Labor Market?

Executive Summary

This year the FOMC has been firmly focused on trade-related uncertainty, slowing global growth and the impact of those developments to the economy here at home. But FOMC members have also been emphasizing sustaining the expansion, particularly since the ensuing strength of the jobs market is finally benefiting those most hurt by the Great Recession.¹

While the distributional outcomes of the labor market may seem like minutiae to a committee with relatively blunt policy instruments, they are nonetheless linked to the Fed's goals. Policy that supports more marginalized workers without stoking inflation is consistent with the Fed's Congressional mandates of maximum employment and price stability. The disproportionate improvement for workers who had previously not benefited much from the labor market's recovery broadens the base of consumer spending and shores up the Fed's efforts to maintain a tight labor market and get inflation back to 2% on a sustained basis.

In this note, we highlight a number of ways in which the labor market is improving more decidedly for groups hit hardest by the Great Recession. Unemployment is at historical lows for what have typically been more marginalized groups, and this has translated into record low poverty rates. Job growth has been stronger in high-paying industries over the past two years, and for workers in lower-paying industries wages have been outpacing the broader labor market. The improved earnings opportunities have helped pull more people into the labor market and boosted the share of national income flowing to workers. The recent progress, however, has not fully unwound the damage done by the last recession and suggests that there may be more benefits from supportive monetary policy to come for the workers who have struggled most over the past decade.

Unemployment Rates: How Low Can They Go?

As has been widely cited by politicians, media outlets, economists and Fed officials alike, the unemployment rate is hovering near its lowest level in 50 years. At 3.6%, that alone is a pretty solid indication of how tight the labor market is today.

An even more striking example of the reach of the current jobs market, however, is the record- or near-record low unemployment rates among traditionally marginalized groups. Specifically, the Black and Hispanic populations as well as those with less than a high school diploma have seen unemployment drop to record lows this expansion (Figure 1). What's more, the historically wide gap in unemployment rates between White and non-White workers has fallen to its narrowest on record (Figure 2).

FOMC members have been emphasizing sustaining the expansion.

Traditionally marginalized groups have seen record low unemployment.

¹ See for example, Powell, Jerome H. "[Building on the Gains from the Long Expansion](#)." Annual Meeting of the Greater Providence Chamber of Commerce. Providence, Rhode Island. November 25, 2019.



Figure 1

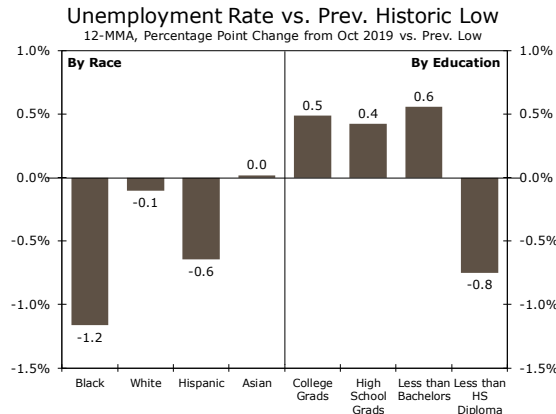
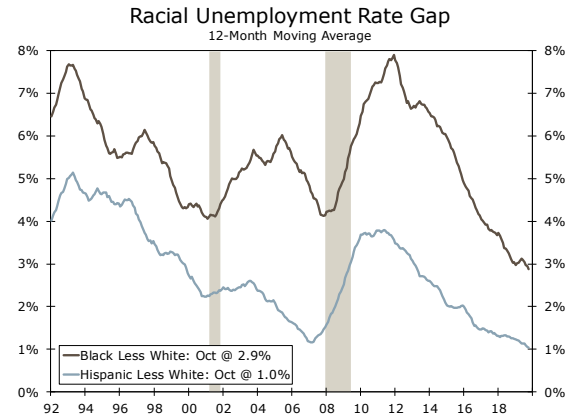


Figure 2



Source: U.S. Department of Labor and Wells Fargo Securities

Help Wanted, but Participation Required

One critique of today’s low unemployment rate is that a historically smaller share of the population is actively seeking employment, which is necessary to be considered officially unemployed. The lack of a recovery in labor force participation is in part due to the aging population, which alone is shaving about a quarter of a point off the overall participation rate each year.² But participation among those 25-54 years old—or “prime-age” workers—has steadily climbed since bottoming in 2015 and has recovered more than half of the ground lost since the recession. Women, who have historically had lower participation rates than men, have accounted for a disproportionate share of the ground reclaimed and seen participation fully recover since the recession (Figure 3).

The improvement in participation among previously discouraged or sidelined workers is also telling. As hiring has strengthened over the past several years, the number of people who ‘want a job but are not actively searching’ has neared its low of the prior cycle (Figure 4).

The number of people who ‘want a job but are not actively searching’ has declined to a record low.

Figure 3

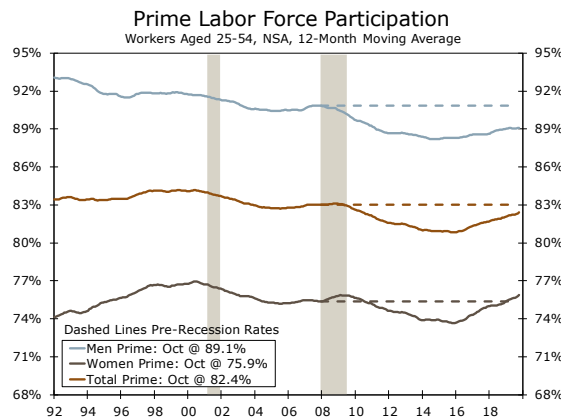


Figure 4



Source: U.S. Department of Labor and Wells Fargo Securities

Less discouragement among workers has aided a resurgence in participation among those with less than a high school diploma. Educational attainment is positively associated with labor force participation, meaning those with less than a high school education are traditionally the least active in the labor force. This group, however, has seen the largest relative improvement in participation of any other educational group this expansion.

² See [“Can Labor Force Participation Ever Recover?”](#) (June 23, 2016).

Quality in Addition to Quantity

Although employment recovered from the Great Recession by 2014, the jobs regained were not the same as those lost. Jobs in lower-paying industries recovered more than a year before higher-paying industries. Over the past two years, however, job growth in higher-paying industries has risen faster than in low-paying industries (Figure 5).³ The quality of job growth has also improved, in terms of hours worked, with part-time employment declining for the past few years amid steady gains in full-time hiring. As a share of total employment, the number of workers reporting they work part time but want full-time work matches the lows of the prior cycle (Figure 6).

Work-related benefits have also expanded.⁴ Access to paid time off and retirement benefits are at post-recession highs. Meanwhile, the share of workers with access to health care benefits has held steady since 2014 despite fears that the Affordable Care Act would limit employer offerings.

Job growth in higher-paying industries has risen faster than in low-paying industries.

Figure 5

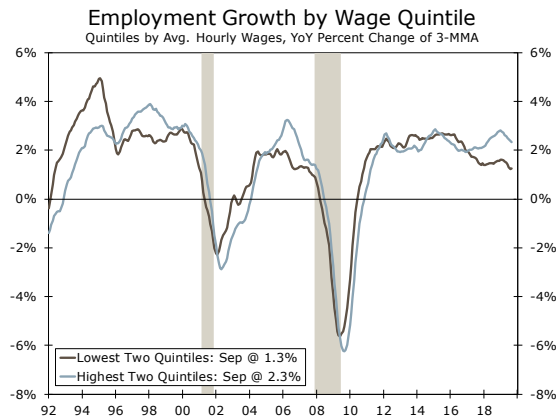


Figure 6



Source: U.S. Department of Labor and Wells Fargo Securities

Show Me the Money

For those workers not gaining employment in higher-paying industries, the tight state of the labor market is at least translating into stronger wage growth among lower-paying industries. One of the clearest ways in which things are improving more markedly for lower-paid workers is average hourly earnings (Figure 7).⁵

Similarly, another way in which the scars of the recession are slowly fading is earnings growth for younger workers. If you start your career in a weak jobs market, it can take roughly a decade for your earnings to catch up to where they otherwise would have been.⁶ The relatively large income hit for young and old Millennials alike, however, is now starting to unwind, with median weekly earnings growth for workers 25-44 running well ahead of older workers the past few years (Figure 8).

Lower-paid workers are seeing stronger wage growth.

³ We sorted industry into quintiles based on average hourly earnings of production & non-supervisory workers in Feb. 2010 (the month when payroll employment bottomed) for 75 industry groups that account for 96% of total employment.

⁴ Based on Employee Benefits Survey data from the Bureau of Labor Statistics.

⁵ Employment-weighted averages for each industry quintile.

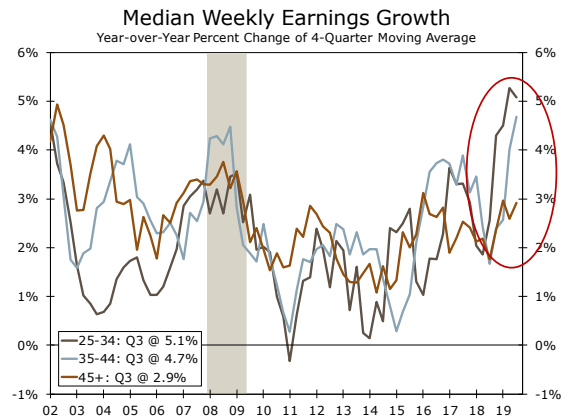
⁶ Oreopoulos, Philip, Till von Wachter, and Andrew Heisz (2012) "Short and Long-Term Career Effects of Graduating in a Recession." *American Economic Journal: Applied Economics*, Volume 4, No. 1. 1-29.

Altonji, Joseph G., Lisa B. Khan and Jamin D. Speer. (2014). "Cashier or Consultant? Entry Labor Market Conditions, Field of Study and Career Success." NBER Working Paper No. 20531.

Figure 7



Figure 8



Source: U.S. Department of Labor and Wells Fargo Securities

Labor Getting More of the Income Pie

A more encompassing way to look at the improving position of labor is the share of national income earned in the economy flowing to workers (Figure 9-brown line). Income generated in the economy can go to number of places, such as the profits of private enterprises like small business owners, landlords and corporations, as well as to the government as taxes or the use of capital spending by businesses. Employers have not been able to fully pass on the higher wages needed to attract and retain workers, which in turn has led to a decline in the share of income going toward businesses/business owners (Figure 9-blue line). This shift in income highlights the relatively stronger position of labor and disproportionately benefits middle-income households who rely more on wages as their source of income.

The labor share of income is improving.

Figure 9

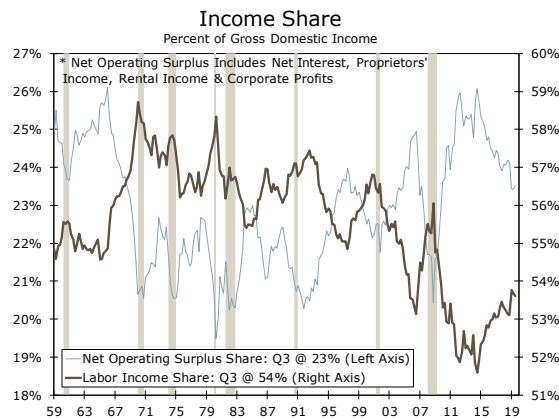
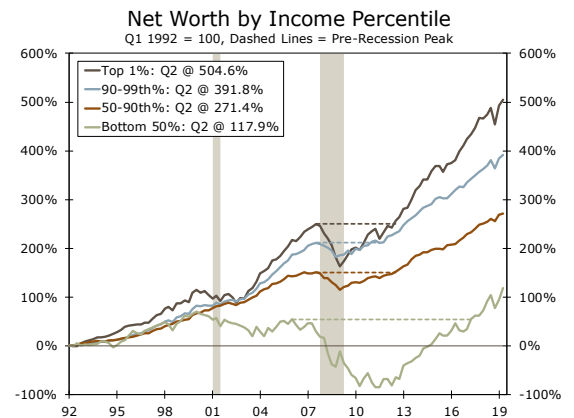


Figure 10



Source: U.S. Department of Commerce, Federal Reserve Board and Wells Fargo Securities

We Are All Worthy

Better job opportunities and faster wage growth for workers who have struggled most over the past decade pushed the national poverty rate below its pre-recession trough last year. Black and Hispanic poverty rates, specifically, have recently touched all-time lows, which corroborates the overall improvement in day-to-day well-being among traditionally marginalized groups.

Perhaps one of the most significant examples of the far-reaching nature of the extended expansion, however, is rising net worth. Stronger job and wage growth over the past few years has certainly benefited the bottom 50% of households, who tend to spend a higher share of their earnings, which makes it difficult to build wealth. It was not until 2017, or *eight* years into the current expansion, that the bottom 50% of U.S. households' net worth surpassed its pre-recession peak (Figure 10).

Net worth is rising across households.

That compares to wealthier households seeing net worth recover by 2012. The strength of the labor market has granted an increasing share of households a sturdier financial cushion, leaving them less vulnerable when the next downturn inevitably strikes.

Getting Better in Many Ways, but Damage Lingers

Workers hardest hit by the recession have been able to make up noticeable ground the past few years as the tight labor market has generated disproportionate gains. With more of the population earning a paycheck and wages rising fastest for low-paid workers who spend a higher share of their earnings, the base for consumer spending is broadening.

But while the direction of change is encouraging, in some ways the labor market continues to look more bifurcated and fragile today than before the recession. For example, while wages have been rising faster in lower-paying industries, the gulf between earnings in the bottom and upper 40% of industries remains notably wider than in the first half of the millennium (Figure 11). Similarly, the share of national income earned flowing to workers remains near historic lows despite the turnaround since 2014 (refer back to Figure 9). Stronger job and wage growth has led to increased net worth for the bottom 50% of households, but the divide between income groups remains wide, with the bottom 50% of households' cumulative wealth accounting for only 2% of the total.

Figure 11

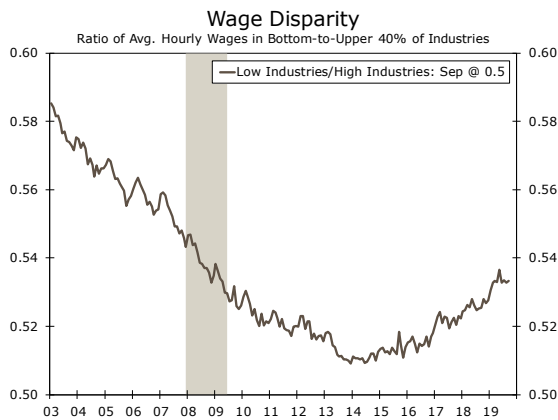
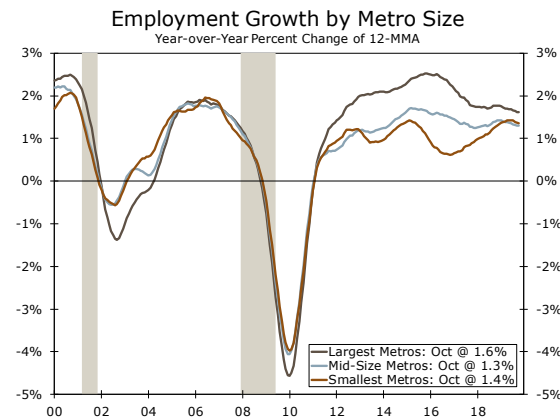


Figure 12



While conditions have improved, it likely takes more than a “high-pressure” labor market to make growth fully inclusive.

Source: U.S. Department of Labor and Wells Fargo Securities

Perhaps most striking has been the uneven improvement in the jobs market in large and small communities. Employment growth in small metros has consistently trailed large metros over the past eight years (Figure 12), while labor force participation has only increased in large metro areas.⁷ Meanwhile, wage growth in non-metro areas has trailed behind metro areas for the past four years.⁸ While conditions in smaller communities have shown some absolute, if not relative, improvement, the disparate growth patterns suggest it will take more than a “high-pressure” labor market to make growth fully inclusive.

⁷ We base the three metro tiers on population size in 2010, with the top tier comprising the largest third of 383 metro areas, the middle tier comprising the middle third, and the smallest tier comprising the smallest third. See “[Diverging Fortunes: Labor Force Participation Trends in Large and Small Metro Areas](#)”. July 12, 2019.

⁸ See the [Atlanta Fed Wage Growth Tracker](#) by MSA or Non-MSA.

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