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EMPLOYMENT IN THE GREAT RECESSION: Wages and Work in North Carolina

*Timely, accessible,
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analysis of
state and local
budget and tax
issues*

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OVERVIEW

Most stories of the Great Recession focus on the loss of jobs and high unemployment and fail to take into account changes to the work environment for those workers who have kept or found jobs. Nationwide, workers have experienced a reduction of hours, curtailing of benefits and an erosion of wage growth. The latter trend is the subject of an Economic Policy Institute report, which finds that by all measures wage growth decelerated sharply from the second (2008/2009) to the third year (2009/2010) of the downturn.¹

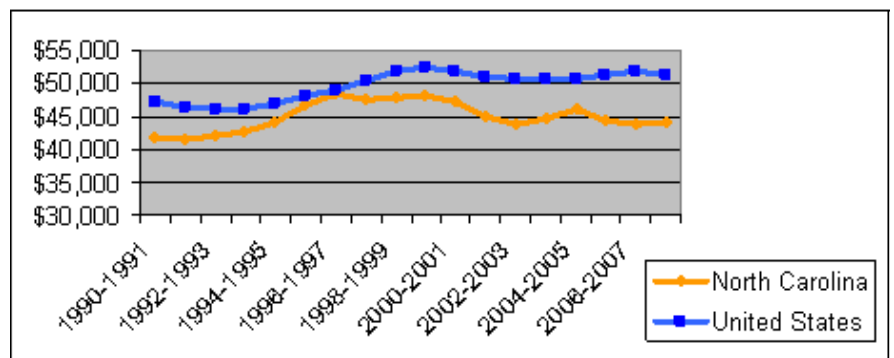
For North Carolina's workers, the story is a bit different. Wages continued to grow over the course of the Great Recession, stalling during the period from 2008 to 2009 and picking back up again from 2009 to 2010. This starting and stopping of wage growth in the short term can be informed by the longer-term trend, which began in 2000, of declining incomes and living standards. Given the ongoing challenges of the downturn—including the reduction in work hours, loss of wealth and long-term unemployment due to a lack of job creation—wage growth is likely to be an important economic indicator for understanding the well-being of North Carolina's workers as the economy recovers.

Income and Living Standards Declined in Last Business Cycle

To date, the 2000s first economic cycle represented the first expansion in American history in which the typical household was no better off at the end of the cycle than at the beginning. In the previous expansion of the 1990s, median household income in North Carolina grew from \$41,725 to \$48,017. However, from 2001 to

FIGURE 1

Two-Year Median Household Income



SOURCE: Economic Policy Institute analysis of U.S. Census Bureau Two-Year Median Household Income in 2008 dollars

2008, median household income decreased from \$47,159 to \$44,085.² This decline is only part of the story. Incomes are expected to be even lower in 2009, and with high unemployment rates expected until the first quarter of 2011, incomes could potentially drop further.

Wage Growth During the 1990s and 2000s

In addition to the declining trend in income, it is also important to look at the hourly wage of workers. Wage growth is clearly linked to a household's standard of living and consumption and

thus the strength of economic recovery. Growth in wages is driven by a tight labor market where, in order to keep workers, employers must raise wages. In a period of weakness, like today's labor market, workers and job seekers have less ability to negotiate for higher wages given the scarcity of employment opportunities. At the national level, there are currently five job seekers for every job opening.

The median hourly wage of workers in North Carolina in 2009 was \$14.95, just 60 cents higher than in 2000 when the median wage was \$14.35.³

The wage growth that occurred in the 2000s in North Carolina largely benefited those at the upper end of the income distribution. In contrast, wage growth in the during the expansion of the 1990s was more broadly shared.

Wage Disparities

The Great Recession had a huge and negative impact on most people's lives, but the effects have not been felt equally by all. The gap between average hourly wages for males and females closed slightly during the Great Recession, largely driven by the declines to males' wages brought on most likely by their concentration in industries hardest hit by

the downturn, such as construction and manufacturing. Despite this decline, the wage gap between men and women persisted at \$1.67 per hour.

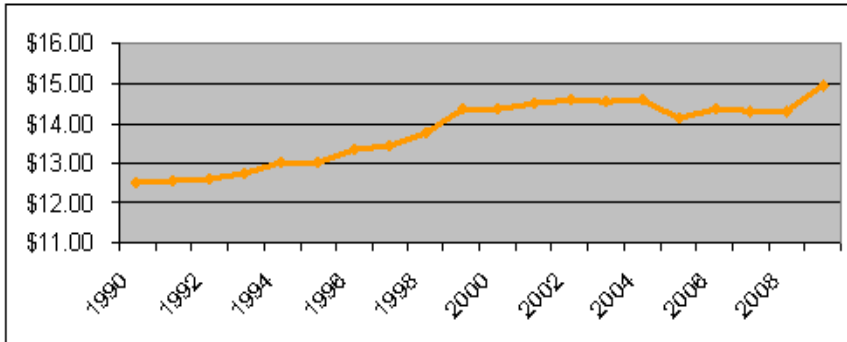
Wages by education level show a trend common to North Carolina's economic transformation of the last three decades: a decline in wages for those with less than a high school diploma. The higher rate of unemployment for those with less education likely contributes to this wage trend. Unemployment among those with less than a high school diploma increased from 9.2 percent to 20.8 percent, and among those with high-school diplomas only it went from 5.1 percent to 13.3 percent. Workers with college degrees, however, saw their unemployment rate increase from 2.4 percent to 5.1 percent.

Job Growth in 2010 in Mid-Wage and Low-Wage Industries

Analysis also released this week by the National Employment Law Project provides further evidence that wage growth will be important to monitor as the economy recovers and affects the future living

FIGURE 2

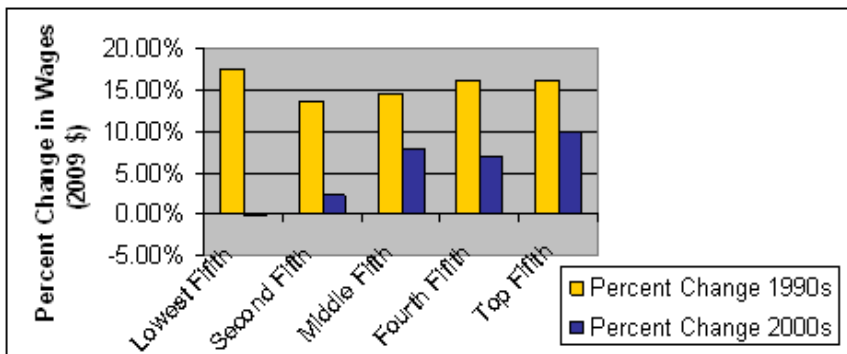
Median Hourly Wage in North Carolina, 1990 to 2009



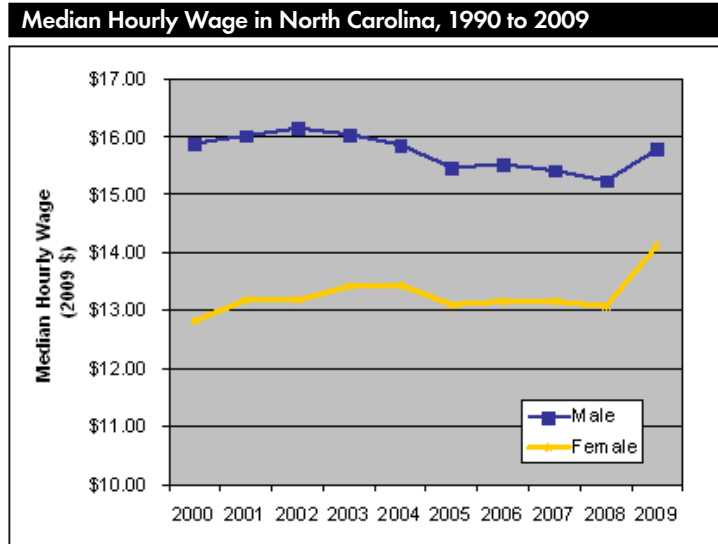
SOURCE: Economic Policy Institute Analysis of the Current Population Survey

FIGURE 3

Percent Change in Wages by Income Quintile



SOURCE: Economic Policy Institute Analysis of the Current Population Survey



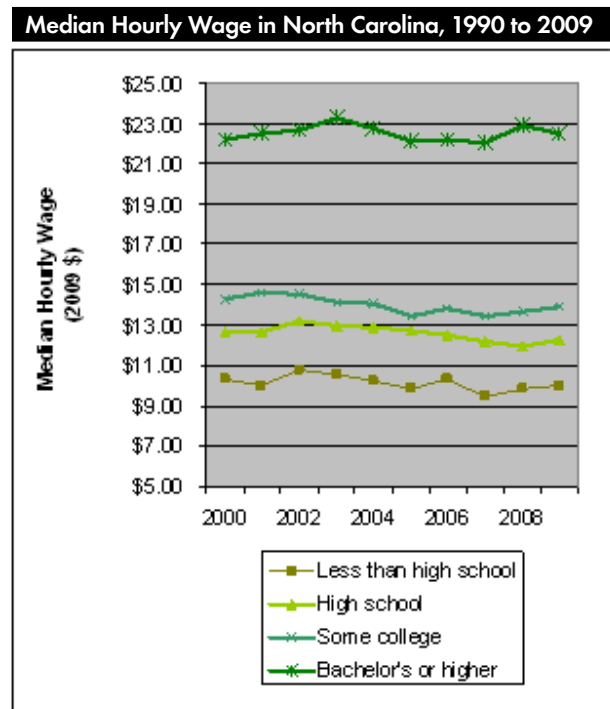
SOURCE: Economic Policy Institute Analysis of Current Population Survey

standards of North Carolina’s workers. The report finds that net job growth has been concentrated in mid-wage and low-wage industries nationwide. The three occupations growing the fastest – retail sales people, cashiers and food preparation workers – all had median wages below \$10 an hour.⁴ North Carolina’s growth in 2010 has been across various industries – professional and business services, manufacturing, information and other services – but preliminary analysis finds growth concentrated in low- to mid-wage occupations within those industries.⁵ Certainly, the jobs created today may be different from those created down the line. Ongoing tracking of these trends will be essential to ensure that the economy recovers in a way that supports America’s working families.

Ongoing Challenges to Wage Growth

- From 2007 to 2009, the average hours worked for production workers in North Carolina declined by nearly three hours. If that average is multiplied across a year of work, North Carolina production workers have lost nearly two weeks of work. Declines in hours worked reduce the weekly paychecks of workers and thereby impact consumption and demand for goods and services.
- At 9.8 percent in July 2010, North Carolina’s unemployment rate continues to be higher than the nation’s. As the labor market continues to appear weak, downward pressure on wages will remain. Economists expect unemployment to remain high for many years to come.

FIGURE 4



SOURCE: Policy Institute Analysis of Current Population Survey

Conclusion

While North Carolina’s average hourly wage growth has bucked the national trend of decline, those North Carolinians working in today’s tough economy are experiencing additional negative pressures on the paycheck. Wage growth can be supported by policies that strengthen the labor market, support working families, and ensure that wages and living standards are closely tied to productivity. Job creation efforts should be the priority of policymakers, and additional support to working families can boost spending to support direct efforts to grow local jobs. On Labor Day, it is also particularly important to consider the positive role that minimum wage standards and collective bargaining can play in ensuring that the wages, wealth and prosperity of a recovered economy are broadly shared.

DATA SOURCES:

- 1 Mishel, Lawrence and Heidi Shierholz with Andrew Green. August 31, 2010. Recession hits workers’ paychecks. Economic Policy Institute Briefing Paper #277
- 2 Economic Policy Institute analysis of U.S. Census Bureau, Two-Year Averages of Median Household Income in 2008 dollars.
- 3 Economic Policy Institute Analysis of Current Population Survey
- 4 National Employment Law Project. August 27, 2010. “Where the Jobs Are: A First Look at Private Industry Job Growth and Wages in 2010. Data Brief.
- 5 Analysis of the Employment Security Commission of North Carolina data from Occupational Employment Survey and Quarterly Census Employment and Wages.