



Americans' Wages Rise in 2nd Quarter

Paychecks are going up for millions of private sector employees, according to a new report.

By Andrew Soergel

July 15, 2015

An expanding pool of evidence suggests American workers' wallets may finally be getting fatter after years of sluggish wage gains.

ADP Research Institute's latest iteration of its Workforce Vitality Index, which was released Wednesday and tracks the total wages paid to U.S. private sector workers, jumped almost 2.2 percent in the second quarter from the first three months of 2015. The index was up 4.1 percent year over year.

Gains were predominantly driven by wage increases for young workers and older workers remaining in the workforce, thereby continuing to receive a paycheck.

"Both the youngest and oldest workers are experiencing solid growth as measured by the index, but for very different reasons," Ahu Yildirmaz, vice president and head of the ADP Research Institute, said in a statement accompanying the report.

Workers between the ages of 16 and 24 years old, who are typically paid the least in the domestic labor market, saw paychecks climb 5.5 percent year over year, while individuals at least 55 years of age saw annual gains of 6.8 percent. Workers between 25 and 34 years

olds and 35 and 54 years old saw more modest wage increases of 3.1 and 3.2 percent, respectively.

"Smaller firms experienced the strongest growth in workforce vitality primarily because of employment growth," according to the report, which draws on ADP's separate National Employment Report in noting that "firms with fewer than 50 employees have been leading employment growth for some time."

Women's wages have expanded 5 percent in the past year, compared to growth of just 3.5 percent for men. Leisure and hospitality jobs and finance positions saw year-over-year gains of 7.7 percent and 5.8 percent, respectively. And wages in the manufacturing sector climbed 4.9 percent.

But construction led all industries in terms of wage gains, with 9.8 percent growth. The construction sector has been aided by a recent boom in home construction that pushed new housing starts in April and building permits in May to levels unseen since 2007.

"We know that housing's cranking. Housing's sitting here at a 7 year high," says Phil Orlando, chief equity strategist and senior portfolio manager at Federated Investors.

Construction statistics have puzzled economists of late, considering the sector's month-over-month employment growth was shown to be stagnant in the Labor Department's June Employment Situation report. Considering all of the new housings starts and building permits, many find this employment data a little hard to believe.

"How is it that housing could be at a 7-year high and we've added literally no construction jobs over the month? That didn't make any sense to me," Orlando says. "I think there may be some seasonal issues in there that might be revised away in the coming months."

"With housing showing so much forward momentum, we find it hard to accept that not a single net new person was hired in the construction industry," **Bernard Baumohl, chief global economist at The Economic Outlook Group**, wrote in a research note earlier this month, noting that the jobs figure "defies logic."

Whether construction wages are growing is less dubious of a concept, though the degree to which they're expanding varies across the board. The Labor Department estimates construction wages in June expanded 2.5 percent year over year, in line with ADP's data but well shy of the 9.8 percent growth posted in the vitality index.

The reports draw from different pools of data, but the fact that wages are headed in the right direction is a good sign for the domestic economy. Although average hourly earnings across all industries was flat in the Labor Department's June report, other metrics are showing more and more upticks in workers' annual wages. In addition to Wednesday's vitality index, the Bureau of Economic Analysis estimates Americans' disposable personal income in May climbed 0.5 percent from April's data for a second consecutive month of growth.

"The fundamentals for consumers are solid: job growth of better than 200,000 per month, wages that are finally starting to pick up, the big drop in energy prices that has freed up cash to spend on other items, low interest rates to fund purchases of big-ticket items, and gains in household wealth from rising home values and higher stock prices," Stu Hoffman, chief economist and senior vice president at PNC Financial Services Group, wrote in a research note Tuesday.

Strong wage growth typically translates to increased spending, and in America's largely consumer-driven economy, splurges are viewed as a good thing for the whole country. After Tuesday's underwhelming retail sales report, economists will be looking for Americans to loosen their purse strings in the coming months.

###