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WAGES GROW IN LOW UNEMPLOYMENT CITIES

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In U.S. cities with the tightest labor markets, workers are finding something that's long been missing from the broader economic expansion: faster-growing paychecks.

Workers in metro areas with the lowest unemployment are experiencing among the strongest wage growth in the country. The labor market in places like Minneapolis, Denver and Fort Myers, Fla., where unemployment rates stand near or even below 3 percent, has now tightened to a point where businesses are raising pay to attract employees, often from competitors.

It's an outcome entirely expected in economic theory, but one that's been largely absent until now in the upturn that began more than eight years ago.

Nationally, wage growth has been stuck in neutral for the past two years, even as the unemployment rate has declined to the lowest level in 17 years.

During the past year, even Americans who had previously given up looking for work – so-called discouraged workers who aren't counted in the unemployment rate – have come off the sidelines and returned to the labor force. And fewer people are now stuck in part-time jobs when they desire full-time work. That potentially points to improved income gains nationally in 2018, something the Federal Reserve will be monitoring as it looks for signs of nascent inflation.

City-level data "show the relationship between wage growth and a tight labor market still holds," said Adam Kamins, senior economist at Moody's Analytics. "You're seeing the first movers into full employment and past it, with the uptick in wage growth."

One of those regions is Minneapolis, where the unemployment rate was the lowest among large metro areas in the country, standing at just 2.3 percent in October. Weekly wages for private-sector workers increased by more than 4 percent from a year earlier during the second quarter, according to Labor Department data. It was the best annual wage growth for the area in six years.

The comparable national figure showed wage growth of less than 2 percent from a year earlier.

Minnesota state economist Laura Kalambokidis says the Minneapolis area has a diverse economy that helped it rebound from the recession more quickly than the rest of the country. "I see the state and the Twin Cities as a bellwether for the rest of the country," said Dr. Kalambokidis, a professor at the University of Minnesota.

Competition for skilled workers has become especially fierce in industries such as construction, information technology and manufacturing, according to local economists and businesses.

“In our industry at this time, money talks,” said Jaci Dukowitz, head of human resources at Ultra Machining Co., a family-owned precision-machine shop in Monticello, Minn., that makes parts for medical device makers and the aerospace industry.

In 2014, business was so good that Ultra Machining decided to add more weekend shifts to keep parts rolling out the door seven days a week. But it couldn’t find the staff.

The company offered 25 percent more pay for weekend work. Still, no takers. Then, Ultra Machining offered a $5,000 hiring bonus. At its peak, the program attracted 12 machinists for the weekend shift. Today, it’s down to just six. The company also added a $2,500 retention bonus for every year a worker stays on the shift, in the hope of slowing turnover.

Large metro areas including Denver, San Jose, Calif., and Austin, Texas, also have unemployment rates below 4 percent and are experiencing wage growth of at least double the 2 percent national average. The same trend is happening in smaller areas including Fort Myers, Des Moines, Iowa, and Ogden, Utah.

Low unemployment hasn’t been a reasonable predictor of wage growth throughout the economic expansion. In 2010 and ‘12, wage growth in the 100 largest metro areas was clustered near 2 percent annually, regardless of the jobless rate, according to analysis by Moody’s Analytics.

A number of factors have helped keep wage growth in check since the recession ended in 2009. The deep downturn meant that many who lost jobs returned to work at a lower wage, while the development of a global labor market put U.S. workers in competition with peers in China and Europe. The unemployment rate may also not have fully reflected the degree of slack in the labor market because some Americans were too discouraged to look for work and others were stuck in part-time jobs.

But in areas facing worker shortages, companies are left with little choice but to raise wages.

Patrick Grimes, owner of Generations Hardwood Flooring LLC in New Brighton, Minn., said his two lead workers told him last summer they were leaving to start their own company. He offered each a $10,000 raise, putting their salaries at $75,000 a year, and started covering 100 percent of their health-insurance premiums. Both men stayed.

Fort Myers already had a tight labor market before workers started leaving other fields to go into construction to help with rebuilding after Hurricane Irma hit in September. The unemployment rate in October was 3.3 percent, and wages are surging.

“If you’re a dishwasher with a pulse, we’d probably hire you,” said William Prather, owner of Broadway Palm Dinner Theater in Fort Myers.

Mr. Prather said he has raised starting wages at his restaurant by 5 percent to 10 percent, and regularly pays overtime because his kitchen is understaffed by at least five people.

In Ogden, Utah, the unemployment rate has been below 4 percent since 2014. Wage growth accelerated during that time to an almost 4 percent annual rate.

Ryan Vaughn, head of human resources for Ogden-based food products manufacturing firm Honeyville Inc., said finding workers in all areas of the business has gotten harder as the local economy has grown.

“As far as positions we struggle with, it’s kind of all of them actually,” he said. About nine months ago, forklift drivers were making between $12 and $13 an hour. Today, hourly pay can go as high as $16 an hour.

The tight job market has made Steve Carlsen, president and chief executive of Kurt Manufacturing Co. in Minneapolis, “almost go into a panic mode,” he said.

One of the company’s machinists, Juste Dabout, said he recently received two phone calls in one week from competitors asking if he’s on the job market. The 40-year-old Cameroon native said no, but that he would send over machinists he knows without a job. One problem: He doesn’t know any.