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AVERAGE WAGES TO SHRINK AS EMPLOYMENT GROWS

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With so many gauges of the US economy pointing to an accelerating recovery, and even a post-pandemic boom, it seems like a strange time for the government to warn that wages are about to shrink.

But that's what is likely to happen with at least one key measure of paychecks – thanks to another Covid-era quirk in the economic data, which led the White House to warn this week that growth in average hourly earnings is set to "decline dramatically" in the coming months. It may even turn negative on a year-over-year basis.

That doesn't mean US workers will be taking pay cuts. The story behind the numbers is more complicated – and it's latest example of how seismic shifts during the pandemic have thrown usually reliable data series out of whack, and made it harder for policy makers and investors to figure out what's going on in the economy right now.

When Covid-19 shut down swaths of the country, the bulk of the 21 million jobs that disappeared were low-paid work in service industries. One side-effect was that average wages posted some of the fastest growth in recent history – not because employees were getting raises, but because the composition of the workforce had skewed sharply toward the better-paid.

'THE TYPICAL WORKER'

As it gathers speed, the economic recovery will send that process into reverse.

For high-income workers, employment has been relatively quick to bounce back toward pre-pandemic levels, according to Opportunity Insight, a Harvard University research project that tracks the recovery.

But there's still a big shortfall in lower-paid jobs. That gap is expected to narrow, as the vaccine rollout and the approach of summer boosts demand for things like restaurant meals and hotel rooms.

Already this year, the economy has regained 1.5 million service jobs. There are likely more to come, especially in leisure and hospitality, one of the lowest-paying US industries.

The result will be to pull down average wages – the dynamic that the White House is warning about. The blog post by Council of Economic Advisers chief Cecilia Rouse and Martha Gimbel argued that while the effect could be large – "it is possible that reported real average wages could fall faster than we've seen before" – it's essentially caused by "computational quirks."

"Most workers did not receive historic raises in April of 2020, even though that is what average wages suggest," they wrote. "Likewise, the typical worker is not likely to experience the slowdown in wage growth that we expect to see in the upcoming data."

MINIMUM WAGE

There are plenty of other cases, in the Covid-19 era, of headline economic numbers that don't tell the whole story. Inflation data, for example, have been skewed by changes in consumer habits during lockdown – and by what are called base-year effects, as dramatic moves from early in the pandemic drop out of annual calculations.

All of this creates headaches for policy makers – especially at the Federal Reserve, which increasingly views wage growth for low-income workers as a key measure of how close the economy has gotten to maximum employment. It's hard for Fed officials to identify trends until the data settles down.

In the Fed's latest survey of regional economic conditions, known as the Beige Book, many interviewees talked about rising wage pressures – though some also said that firms may hold off on pay hikes in the hope that a surge of newly vaccinated job-seekers will return to the labor market.

The past few months have brought some encouraging signs for low-paid workers. Big employers like Walmart Inc. have announced pay raises, and higher minimum wages took effect in 20 states as of January 1, according to the Economic Policy Institute.

Still, data from the Atlanta Fed show how wide the variations are. About a quarter of the workforce has seen wages shrink steadily for the past two decades – while another quarter posted an increase of almost 14 percent in the year through March.

Divergences like these can't be captured in average or aggregate figures. That's one reason why the Biden administration, on its first day in office, ordered a review of how government data agencies can do a better job of breaking down the economy – by income, race or gender – to show how different groups are faring. The working group is due to report back by mid-July.