Wage Inequality in the Region

Economic Press Briefing: August 10, 2017

The views expressed here are those of the presenter and do not necessarily represent those of the Federal Reserve Bank of New York or the Federal Reserve System.
The 2nd Federal Reserve District

Regions in the District

- Upstate NY
- Northern NJ
- Downstate NY
- Puerto Rico & U.S. Virgin Islands
Overview

• Over the past year, the pace of job growth has slowed somewhat in much of the region.

• Job growth has remained strongest in and around New York City, while there has been little growth in most of upstate New York. Puerto Rico and the U.S. Virgin Islands continue to struggle.

• Focusing on wage inequality, the New York-Northern New Jersey region is home to some of the most unequal and least unequal metros in the country.
Recent Economic Performance
Regional Employment Trends

Indexes of Total Employment, June 2017

Index (Jan2013=100)

Source: U.S. Bureau of Labor Statistics and Moody’s Economy.com; data are early benchmarked by FRBNY staff.
Sectors Driving Regional Job Growth

Annual Employment Change (Thousands), June 2017

**Downstate NY**

<table>
<thead>
<tr>
<th>Sector</th>
<th>Change (Thousands)</th>
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<tbody>
<tr>
<td>Health &amp; Education Services</td>
<td>52</td>
</tr>
<tr>
<td>Professional &amp; Business Services</td>
<td>31</td>
</tr>
<tr>
<td>Leisure &amp; Hospitality</td>
<td>8</td>
</tr>
<tr>
<td>Government</td>
<td>7</td>
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**Upstate NY**

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<tr>
<td>Professional &amp; Business Services</td>
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<td>Leisure &amp; Hospitality</td>
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<tr>
<td>Government</td>
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**Northern NJ**

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<td>Transportation &amp; Utilities</td>
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<td>Government</td>
<td>9</td>
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<tr>
<td>Leisure &amp; Hospitality</td>
<td>7</td>
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<tr>
<td>Professional &amp; Business Services</td>
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**Puerto Rico**

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<td>Professional &amp; Business Services</td>
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<td>0.6</td>
</tr>
<tr>
<td>Government</td>
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</tbody>
</table>

Note: Annual employment change calculated as the average of the last 12 months minus the average of the previous 12 months.
Local Job Growth in the Region

Annual Percent Change, June 2017

- **Moderate Growth** (1.0% to 2.0%)
- **Modest Growth** (0.5% to 1.0%)
- **Little or No Growth** (-0.5% to 0.5%)
- **Declining** (less than -0.5%)

Source: Bureau of Labor Statistics and Moody’s Economy.com; data are early benchmarked by FRBNY staff.

Notes: Bergen* and Middlesex* are the Bergen-Hudson-Passaic and Middlesex-Monmouth-Ocean Special BLS Areas. Annual percent change calculated as the average of the last 12 months over the average of the previous 12 months.
Wage Inequality in the Region
Regional Wage Inequality

- Wage inequality has increased among all workers since the early 1980s.

- Some places are much more unequal than others, even within our own region.

- The most unequal places tend to be large metros with strong wage growth for those at the top of the wage distribution.
Annual Wages in the United States

Full-Time Workers, Constant 2015 Dollars


Note: Full-time workers are those aged 16 to 64 working at least 35 hours per week and 40 weeks per year.
Real Wage Growth in the United States
1980-2015 Percent Change by Percentile

What’s Driving Wage Inequality?

• Technological change and globalization have changed the pattern of demand for workers.
  
  ▪ Strong demand for skilled workers has resulted in larger wage gains for workers toward the top of the wage distribution.
  
  ▪ Demand for lesser skilled workers has been weaker, stifling wage growth for workers at the middle and bottom of the wage distribution.

• Other contributing factors include the decline in unions and the falling real value of the minimum wage.
The Geography of Wage Inequality

2015 90-10 Ratio for U.S. Metropolitan Areas

Sources: U.S. Census Bureau, Decennial Census (1980) and American Community Survey (2015).
Wage Inequality in the Region
2015 90-10 Ratios for 2nd District Metro Areas

Note: The NYC-NNJ metro includes New York City, Long Island, parts of the Northern Suburbs, and much of Northern NJ.

Sources: U.S. Census Bureau, Decennial Census (1980) and American Community Survey (2015).
Why Are Some Places More Unequal?

• **Differences in Local Demand for Workers**
  - Demand for skilled workers has been particularly strong in some metros leading to outsized wage gains for those at the top.
  - Decline in demand for lesser skilled workers has been geographically concentrated, stifling wage growth for workers toward the middle and bottom of the wage distribution.

• **Agglomeration Economies**
  - Productivity benefits from clustering together in cities have been particularly strong for skilled workers located in large metros.

• **Migration**
  - Skilled workers are increasingly moving to large metros that offer urban amenities and higher wages.
Larger Metros Now Tend to Be More Unequal than Smaller Metros

Sources: U.S. Census Bureau, Decennial Census (1980) and American Community Survey (2015).
Real Wage Growth in U.S. Metros

1980-2015 Percent Change by Percentile

Real Wage Growth in U.S. Metros
1980-2015 Percent Change by Percentile

Summary

• Wage inequality has increased in nearly every metro since the early 1980s, though it has increased much more in some places than others.

• The most unequal places tend to be large metros with strong demand for skill, agglomeration economies, and appeal for skilled workers (e.g., NYC-NNJ Metro).

• The least unequal places tend to have lackluster wage growth across the board, due in large part to weak demand (e.g., most metros in upstate New York).
Recent Job Growth in the Region

Annual Percent Change, June 2017

Source: U.S. Bureau of Labor Statistics and Moody’s Economy.com; data are early benchmarked by FRBNY staff.

Note: Annual percent change calculated as the average of the last 12 months over the average of the previous 12 months.
Real Wage Growth in the Region
1980-2015 Percent Change by Percentile