

December 10, 2014

The Liscio Report

On the Economy

For John Liscio 1949-2000

Sales taxes steady, wages strive to close gaps

In November, 67% of the states in our survey met or exceeded their forecasted sales tax collections, down from 85% in October, and 96% reported growth over the year, very close to October's 98%. At 5.3%, the average over-the-year rate of change was basically flat with October's 5.5%, as was the margin above forecast, coming in at 1.3% from October's 1.5%. (All percentages weighted by state population.)

There was considerable variation in the comments from our revenue contracts around the country, although a chorus voiced relief at making forecast with such an unusual calendar for the month. There was, again this month, concern that use taxes may be wavering in a few states, which would indicate weakening business investment. Receipts are holding up well in most of the housing states in our survey, although our contact in one notes a slightly weakening, but still positive, trend. The manufacturing Midwest did

well across the board, and two contacts, one in the Midwest and one in the south, were pleased to have made recently lifted forecasts.

ordinary wages

And now a look at some long and shorter term national hourly wage data. In November, the real average hourly wage for production workers was 7.5% below its peak more than 40 years ago, in January 1973. That shortfall is the result of a sharp 19.0% drop between that peak and a March 1996 trough. The gap

has been partly closed through a near-10% gain between 1996 and 2003 and a further 1.4% increase in 2006 and 2007, interrupted by a 1.6% decline between 2003 and 2006. The average real wage rose over 3% during the Great Recession—surprising, perhaps, but true—and declined 1.2% since the recession ended.

- ***What's happening with real wages by state and sector?***
- ***States: helps to start low and be sitting on carbon***
- ***Sectors: long decline in real wages since 1973 not a compositional effect***
- ***Some low wage sectors get lower, and high get higher***

fidarsi é bene; non fidarsi é meglio

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How much of that decline is the result of a shift in the composition of employment—from, say, manufacturing to services? Not much, really. As the graph on p. 4 shows, the broad patterns of decline and recovery remain pretty much the same if you hold the broad composition of the workforce constant at either its 1973 or 2003 proportions. (The years were chosen because they were significant peaks.) Over the long haul, the compositional changes explain only a couple of percentage points of the moves.

There were, however, significant differences in real wage performance by sector. Graphed on p. 5 are changes between January 1973, June 2003, and June 2009 through November 2014. (The first two are the peaks mentioned above; the last is the end of the recession.)

As the first graph of the group shows, most major sectors are either below or only slightly above their wage levels of almost 42 years ago; the major exceptions are finance, education and health, and other services (a small grab-bag of a sector). Especially

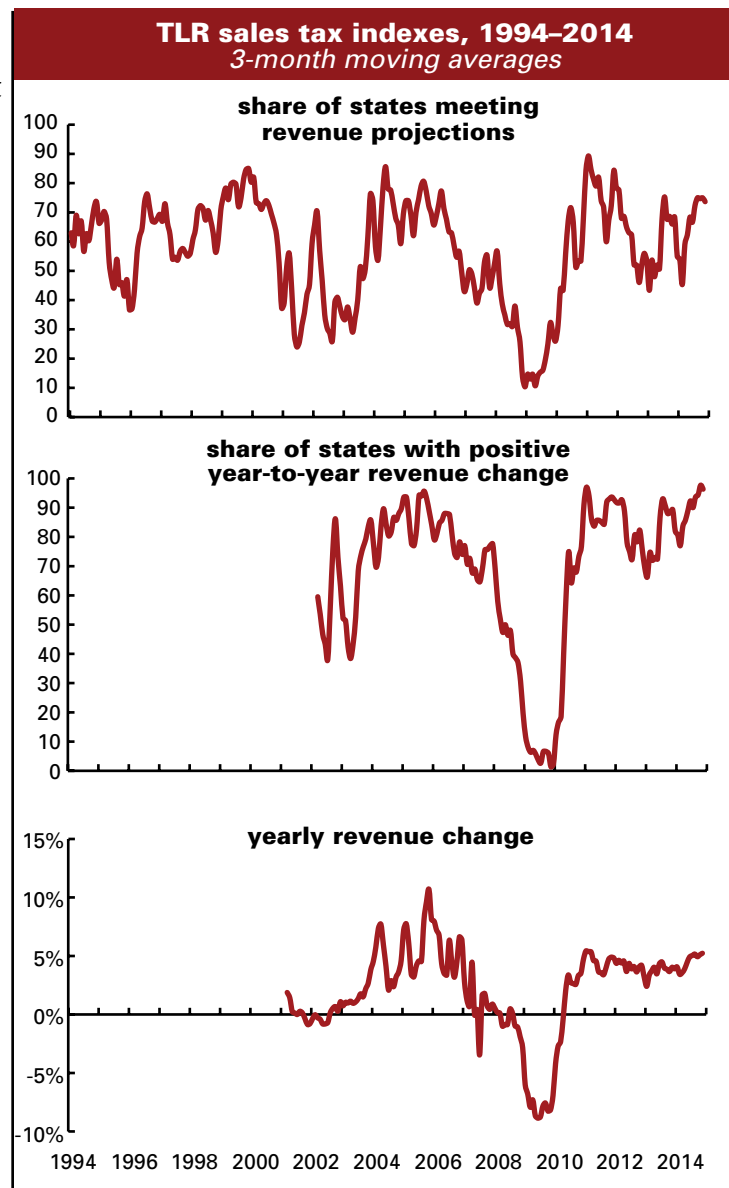
hard-hit are construction, retail, and transportation and warehousing (the last, no doubt, the result of the late 1970s deregulation of the airlines and trucking).

The performance since 2003 is better, with only manufacturing, retail, and transportation and warehousing in the red, the last barely. But mining and logging and finance are both strongly positive.

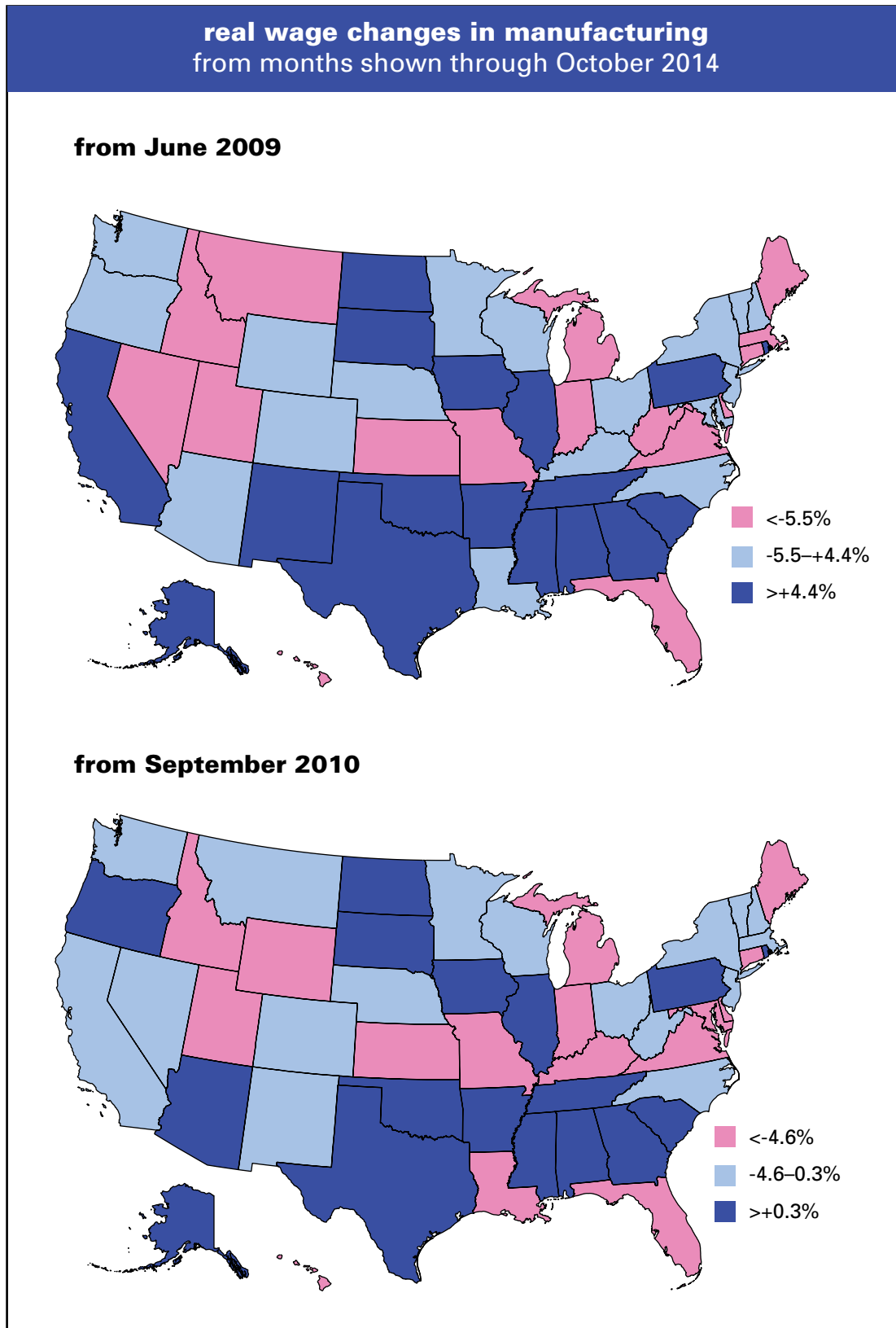
Performance since the end of the recession is more mixed, with information and finance strongly positive; construction, manufacturing, professional and business services, and leisure and hospitality decidedly negative. It's striking that two notoriously low-wage sectors, retail and leisure/hospitality, have been among the worst performers over the last five years. It suggests that wage dispersion,

at least at the broad sectoral level, has widened in the recovery/expansion.

Before one gets alarmed about wage pressures, it's good to get some historical perspective on just how much ground has



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been lost over the longer term.

..and some geographical perspective

We're zeroing in on manufacturing wages around the country because that's where wage pressure would be the stickiest.

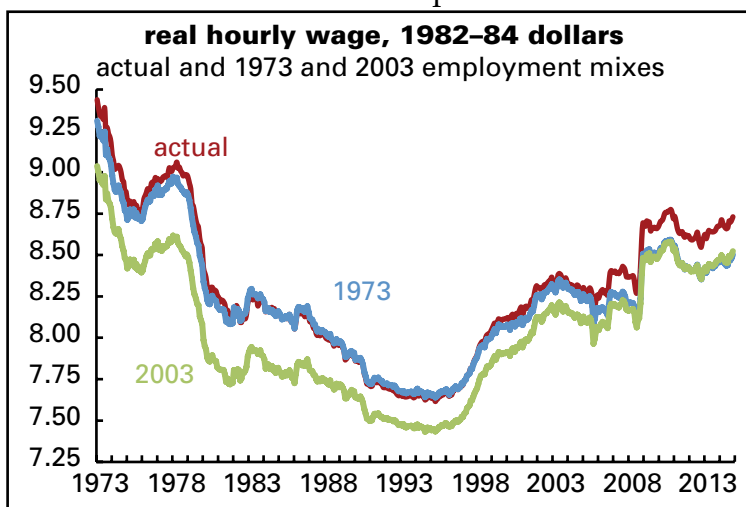
We know, for example, that high-level tech consultants are getting generous retainers just to keep them on-board, but that money can dry up fast. It's hard, though, to back-pedal negotiated wages of skilled workers, especially when you add in training expenses.

Since manufacturing wages at the national level peaked in 2010, we put together two maps (see p. 3), one showing rates of change in real wages around the country from the 2009 trough, and one from the 2010 peak. Since the 2010 peak, purple strength has given up some area and a lot of growth, and the middle tier has retreated. We could have gotten a more dramatic effect by cherry-picking the data to run from each state's trough and peak, but we don't do things like that.

Salient feature #1: States with the lowest wages in June 2009 were most likely to see the strongest gains. A simple regression shows that from June 2009 through October 2014, more than a third of the wage performance can be explained by the level of the starting wage (that is, the r^2 is .35). If you start in September 2010, the r^2 is .36.

Salient feature #2: As we pointed out when we ran state-income league tables last summer, in terms of wage growth it helps—a lot—if you're sitting on valuable mineral resources. We define energy-intensive states as those whose share of personal income derived from mining is

twice the national average. If we add a dummy variable to the previous set of regression (1 if an energy state, 0 if not), then r^2 rises to .48 if you start from June 2009, and .49 if you start from September 2010.



Hidden feature:

Since we're using real wages, you can't see that nominal wages are negative from the June 2009 trough in Delaware; from both that trough and the September 2010 peak in Hawaii, Kansas, and Michigan; and from the peak in Connecticut and Missouri. Negative nominal wages are uncommon.

household incomes

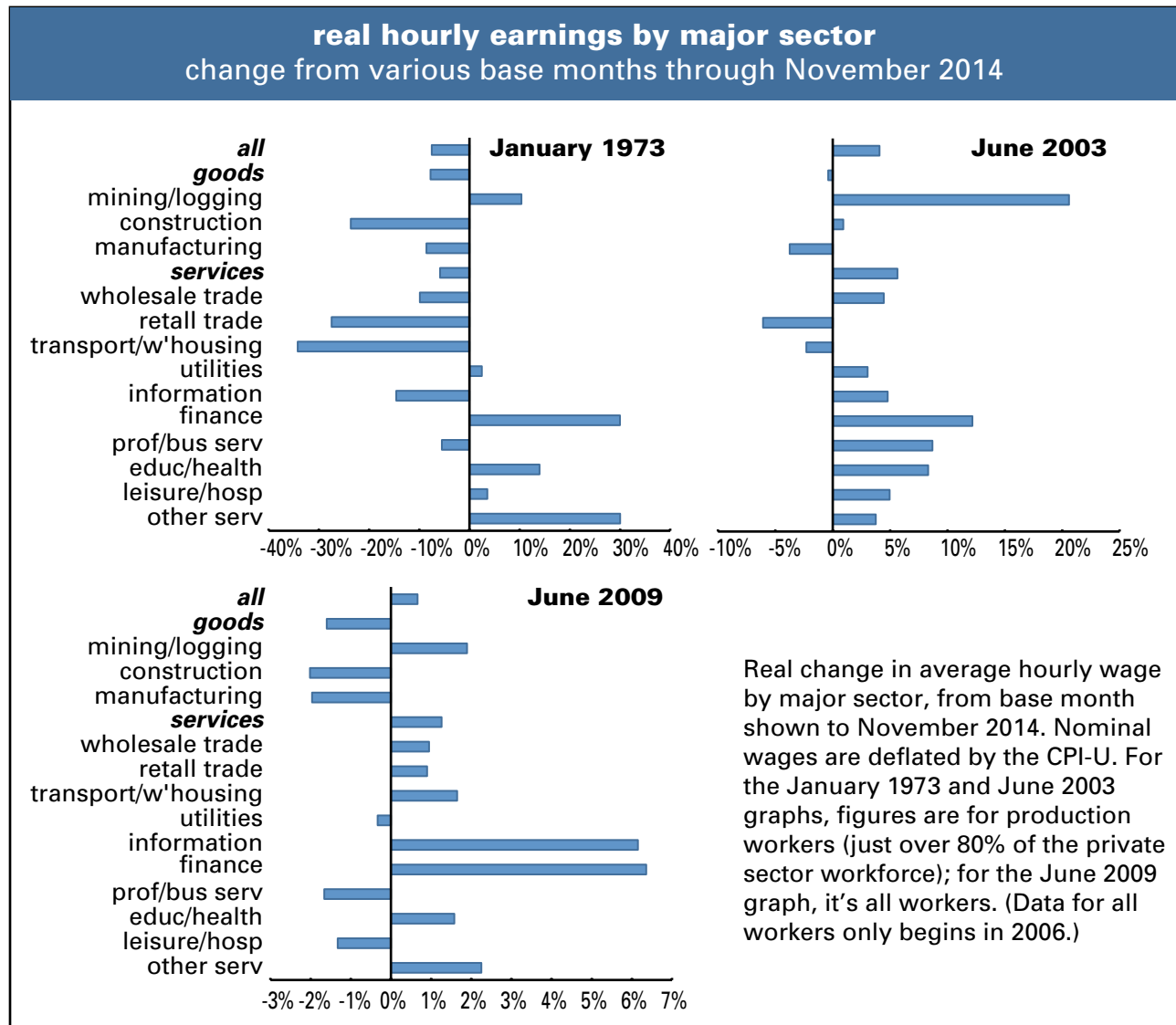
These points are also brought home by Sentier Research's monthly real median household income series, a product of

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two Census Bureau alums. As the graph on the top of p. 6 shows, real household incomes took a sharp hit in the recession and its aftermath, falling over 10% before bottoming out in August 2011. Real me-

signs that the job market is accelerating, these numbers might start looking better soon, but they're not there yet.



dian incomes are up 3.6% from that low, which leaves them almost 7% below pre-recession levels, and just over 7% below the series' all-time high in 2002.

Real household incomes fell 0.6% in October, the most recent month available, and are up just 1% for the year. With some

JOLTS: flattish

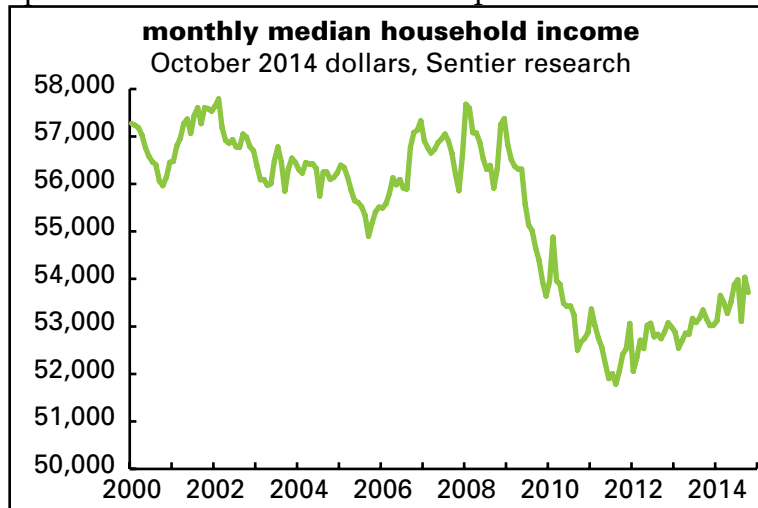
The October Job Openings and Labor Turnover Survey (JOLTS) showed little change for the month. Total openings rose 0.1 point for both the total and the private sector alone, but those increases basically reversed September's decline, leaving the

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rates essentially the same as August's. Both are, however, up substantially from a year earlier. The overall hiring rate was unchanged and the private sector rate fell 0.1 point, but both are exactly where they were in July. Both are up from a year earlier, though only about half as much as the opening rate, suggesting some difficulties in filling positions.

The overall quit rate, which hit 2.0% for the first time since 2008 in September, fell back to 1.9%. But the private sector rate was unchanged at 2.2%, also its best level since 2008. Though the quit rate is below its 2006–2007 rates, it is looking like workers are feeling increasingly confident about the state of the job market. Since the Fed watches this carefully, this will enter into their calculations about the timing of the end of their extraordinary indulgence, and the language they use to describe it. Given their time frame to date, and the risks that remain even in our improving economy, we expect the language to "evolve carefully," under a sky crowded with trial balloons.

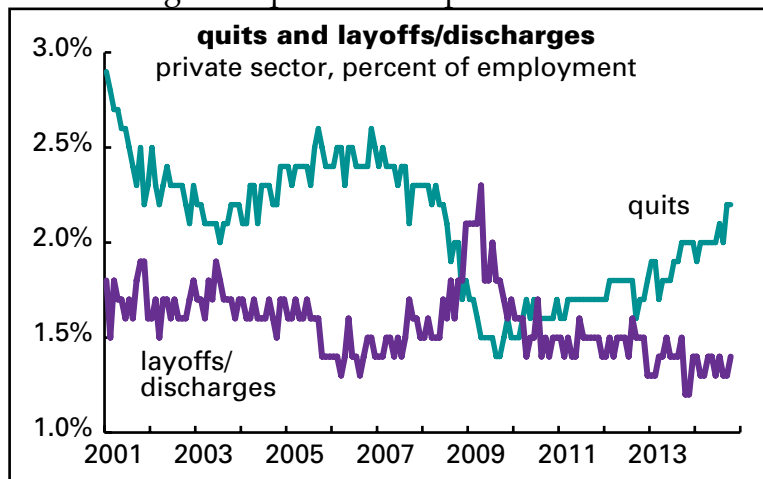
And as the lower graph shows, the lay-off/discharge rate, while well below recession levels, is not plumbing new depths either.



Thursday's retail numbers

Strength in auto sales probably lifted November sales by 0.5%, while a welcome decline in gas prices likely lowered the ex-auto change to 0.2%. Take out those two conflicting factors and look for 0.5% over the month.

State laws concerning sales taxes, as opposed or in addition to excise taxes, on



gasoline are complicated. Nevertheless, all but one of the states in our survey that include sales tax on gas bought at the pump exceeded both forecast and prior year receipts in November. That suggests, not surprisingly, that the

cash freed by the drop in price is finding its way to other purchases, which should help offset current weakness in ordinary wages of our more stressed consumers.

—Philippa Dunne & Doug Henwood