ECONOMY

Middle class getting burned in U.S. jobs recovery

Bloomberg News | April 11, 2012 11:34 AM ET
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Employees making above-average wages, like doctors and energy-industry workers, and those at the other extreme, including home-health aides and restaurant staff, have seen outsized gains in hiring since the jobs recovery began in February 2010.

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By Alex Kowalski

Americans at the top and bottom of the income scale are benefiting most from the jobs recovery while those in the middle are getting left behind.

Employees making above-average wages, like doctors and energy-industry workers, and those at the other extreme, including home-health aides and restaurant staff, have seen outsized gains in hiring since the jobs recovery began in February 2010, say economists at Wells Fargo & Co. and JPMorgan Chase & Co. Professions in the middle, such as financial services and specialty construction, aren't faring as well.

Such a shortfall helps explain why income gains have yet to return to levels seen before the recession began and why consumer spending over the past two years has grown at the slowest pace of any expansion in the post-Second World War era. It also points to a pool of unemployed Americans that will prevent wage increases from flaring out of control and fuelling inflation as the economy grows.

"If we're only creating jobs for the highly skilled and for folks with basic skills, then you're leaving an awful lot of people behind," said Mark Vitner, a senior economist at Wells Fargo in Charlotte, North Carolina. "Until we have broad-based growth, it's hard to imagine how we can have a self-sustaining economic recovery."

Shares climbed Wednesday after Alcoa Inc., the first company in the Dow Jones Industrial Average to report quarterly earnings, said it made a profit in the first three months of the year. The Standard & Poor's 500 Index rose 0.8% to 1,370.03 at 9:51 a.m. in New York, snapping a five-day slump.

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Job Distribution

The highest-paying jobs, which employ about 15% of all workers, have accounted for 20% of the gains in employment since February 2010, when the jobs recovery began, Wells Fargo calculations show. Those whose average earnings are lower than 60 percent of all employees have accounted for about 46% of job growth in the same period.

Middle-income occupations, which employ about 40% of all workers, have created about 34% of jobs since February 2010, Wells Fargo found.

Measures of household sentiment reflect the composition of job gains. Confidence among those making more than US$100,000 a year and for those with annual incomes between US$15,000 and US$25,000 has improved more in the past six months than for families making from US$25,000 to US$50,000, figures from the Bloomberg Consumer Comfort Index showed last month.

Recession's Influence

The divergence in job gains, which extends a pattern that began decades ago, was concentrated during the recession that lasted from December 2007 to June 2009, according to economists Nir Jaimovich and Henry E. Siu, both members of the National Bureau of Economic Research, the group that determines when economic slumps begin and end.

Jaimovich, a professor at Duke University in Durham, North Carolina, and Siu of the University of British Columbia in Vancouver, found that 95% of the jobs lost during the economic slump were among workers who carried out routine assignments. These jobs, which usually pay average incomes and include office and administrative roles, bank tellers, machine operators and mechanics, disappeared during the recession and show "no recovery to date," the researchers found.

On the other hand, employment was little changed during or since the recession for a range of positions from computer programmers to bartenders and home health aides, jobs that encompass the high and low ends of the income spectrum and require non-routine skills like flexibility, problem-solving or human interaction, according to Jaimovich and Siu. Technology allowing businesses to replace routine labor with equipment may explain the lack of middle-income jobs, they wrote in a paper.

Short Job Search

Tyler Stalder is among those in high demand. It didn't take the 24-year-old computer programmer long to find work in San Francisco's technology industry after he finished a one-year Web development fellowship with a nonprofit. Stalder started working for Singly, a startup company, on March 2 after less than two months of job interviews.

"That's kind of the benefit of having a high-demand skill-set," Stalder said last month. "I wasn't that worried about getting a job after the fellowship." Stalder said he's still being contacted by prospective employers trying to recruit him.

Looking at earnings data, Michael Feroli, chief U.S. economist at JPMorgan in New York, also concluded that above- average earners are in demand.

Employment Shift

"Employment is shifting toward industries or occupations with relatively high incomes," Feroli wrote in a March 28 note. Growth in a number of managerial and professional jobs like doctors and college administrators, which pay on average 70 percent more than sales and office occupations, may explain the shift alongside advancements in technology that reduce demand for middle-skilled jobs, he said.

"We have seen this occupation polarization taking place for a number of years now," Feroli, a former researcher at the Federal Reserve, said in an interview. "If you look at the economy from 30,000 feet, in most places the pace of wage growth is really tepid. The evidence is that an extreme amount of inequality is bad for growth."

Consumer spending, which accounts for about 70% of the world's largest economy, grew 2.2% last year after a 2% gain in 2010, the weakest back-to-back advance of any expansion since the end of the Second World War, according to figures from the Commerce Department.

Hourly Earnings

Hourly earnings for all workers climbed 2.1% in the 12 months through March, according to figures from the Labor Department issued last week. The gain remains short of the 3.9% advance in the year ended June 2007, six months before the recession began.

One reason for the restraint in spending is that middle-income households are no longer willing to take on more debt to supplement a shortfall in wages, said Wells Fargo economic analyst Joe Seydl, who worked with Vitner on the research.

"People are deleveraging," Seydl said in an interview. "The option to take on more debt isn't there. What we'd rather have is a better distribution of job gains, not so polarized at the top and the bottom."

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