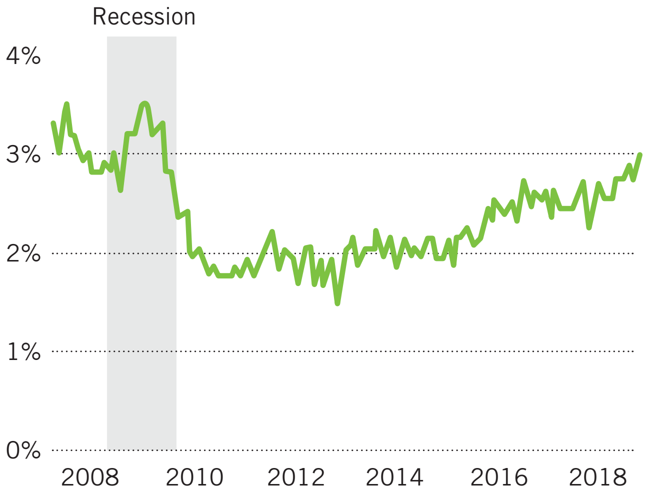
Northern California Employment Trends Report

NORTHERN CALIFORNIA

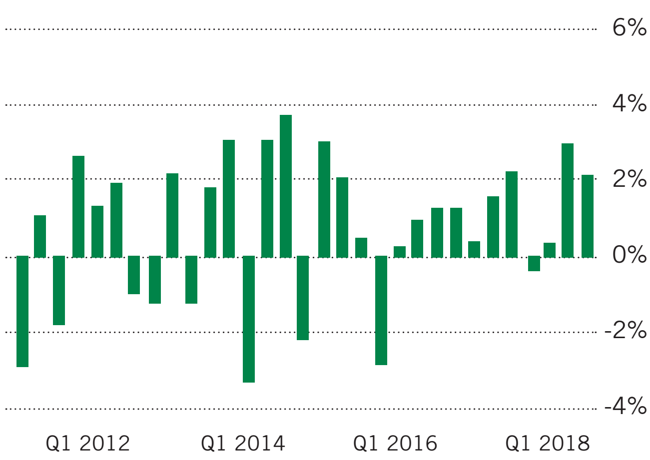
Annual Change in Average Hourly Earnings



Wages increased 3.1 percent from October 2017 to October 2018, signaling the biggest year-over-year gain for average hourly earnings since the 2009 recession. (Source: U.S. Department of Labor)

Labor Productivity

Seasonally adjusted annual rate



U.S. productivity rose 2.2 percent in Q3, the best back-to-back performance in four years. (Source: Bureau of Labor Statistics via FRED)

Record Wage Growth and Higher Productivity Compel Employers to Reevaluate Worker Pay

Employers across the nation added 250,000 jobs in October, according to recent data from the U.S. Department of Labor. The national unemployment rate remains at 3.7 percent, a 49-year low.

The continued lack of skilled labor and increasingly aggressive employer hiring practices drove up wages 3.1 percent last month compared to October 2017, the largest year-over-year gain for hourly workers since 2009.

One reason for this wage increase is a corresponding expansion in worker productivity. Third quarter worker productivity grew 2.2 percent, which is great news.

Businesses tend to increase compensation based on overall worker productivity and the prices that consumers are paying for goods. When productivity is stagnant, it's harder for employers to justify pay increases. And worker output gains during the current economic expansion remain weak.

During the last decade, employers hired more workers to boost output instead of increasing existing employee salaries to keep operating costs low, rather than investing in technology. While the upfront cost associated with automated technology are higher than employee wages, the long-term productivity and operational gains likely exceed that of adding workers to perform these tasks.

Many companies adopted this strategy to reduce operational expenses in a down market. However, as the economy has expanded, fast-growing compensation expectations by jobseekers have made it difficult for companies to fill open positions. As a result, increased pressure on wages have compelled many employers to reevaluate their hourly pay rates to attract and retain top talent.

Hourly pay increases of as much as $2 per hour are becoming commonplace. Companies whose cost structures cannot absorb steep hikes of this kind must look at other ways to attract and retain employees, using culture, commute time, flexible work schedules and other benefits to differentiate themselves.

Ultimately, while increasing wages is good news for jobseekers, this changing market condition will force the hand of many employers to either "pay the going rate" for candidates and employees or risk losing them. The larger impact is decreased business output, productivity, and profitability.

Savvy employers who understand that it's a talent-driven labor market are turning to advanced compensation analytics to evaluate where they stand in relation to their competitors and give themselves a "leg up" during the job offer stage.

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