US wage and GDP growth decline in the fourth quarter

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Wage and salary growth in the United States slowed in the fourth quarter of 2014, according to statistics released by the US Labor Department on Friday. Additionally, the initial estimates for gross domestic product (GDP) growth were made public, showing a 2.6 percent annualized growth in the final quarter, below economists' expectations of a growth rate exceeding 3 percent.

The Labor Department's employment cost index (ECI), which measures wage and benefit costs, increased by 0.6 percent in the fourth quarter of 2014. This is down from the third quarter's increase of 0.7 percent. In December average hourly earnings actually fell by 0.2 percent after being predicted to grow by the same amount.

While the United States has been slowly adding jobs, many of these jobs are in low-wage sectors or industries that are moving in that direction.

Bloomberg reported that the statistics indicated "workers have limited success bargaining for pay increases even as the labor market improves." The *Wall Street Journal* wrote, "Falling unemployment isn't putting much pressure on US companies to boost compensation for their workers."

The new data is consistent with a report by the National Employment Law Project issued last year, which found that a disproportionate number of jobs created during the "recovery" pay less than $13 an hour. The NELP released a report last November showing that traditionally higher paying jobs in manufacturing saw a 21.05 percent wage drop, adjusted for inflation, between 2003 and 2013.

While the official unemployment rate has fallen substantially since the 2009, it does not take into account "missing workers" who have left the work force because they cannot find work. In December of last year, unemployment fell to 5.6 percent according to the Bureau of Labor Statistics. However, the Economic Policy Institute predicts that if "missing workers" were counted in the statistics, the actual unemployment rate would be around 9.1 percent. This pool of 6.1 million unaccounted-for unemployed laborers is one of the factors keeping wages low.

December's statistics make 2014 the 9th consecutive year in which annual GDP growth was below 3 percent. "So much for the growth boom" writes the *Wall Street Journal*, noting that there is no historical precedent for such a sustained period of "mediocre" growth.

The slowdown in growth was primarily caused by a decrease in equipment spending. Non-residential fixed investment, a measure of investment in goods that will be used for future production—such as a factory or machinery—contributed only 0.24 percentage points to GDP growth. This low contribution indicates that US companies are not investing in new productive capacities.

IBM recently announced that it would lay off a large portion of its workforce. IBM is currently reported to be poised to fire 10,000 workers this year.

Last week the oil company Helmerich and Payne said it would lay off 2,000 workers. Several other companies announced substantial layoffs in the past few days: Air Products, 450 workers; Citrix, 900 workers; Sony, 1,000 jobs; iQor, 251 workers; Exel Inc., 278 workers.

At the same time, real personal consumption, an indicator of consumer spending, rose by 4.3 percent in the final quarter of 2014, making up much of the growth that did happen.

One factor behind the strong consumer spending data and weak investment data is the decrease in the price of oil. The oil price drop has led to an abrupt halt of the shale boom in Texas, North Dakota and several other states.

While the crash is expected to lead to hundreds of thousands of job cuts throughout the United States, it will also let workers spend somewhat less money on gas, promoting immediate consumer spending.