

PA Worker Earnings Catch Up to Inflation



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The COVID-19 pandemic, mitigation efforts and federal response produced two economic outcomes that directly impacted the real earnings of Pennsylvania workers. Inflation surged to a four-decade high while a labor shortage and strong demand pushed up worker wages, especially for lower-wage (e.g., food service) and certain healthcare workers. To examine how the typical worker has fared since the onset of the pandemic, the table below lists the year-over-year (YOY) growth in the Philadelphia October CPI-U (latest data) for 2019 through 2023 and the average annual growth rate during that four-year period (bottom row). The table also displays corresponding YOY growth rates for (1) Pennsylvania average hourly earnings and (2) the Philadelphia metro region employment cost index (ECI) for wages and salaries (excludes benefits). These two labor compensation metrics are for private sector workers only and pertain to the third quarter of the calendar year. The two metrics provide the best indicators of average statewide wage growth for payroll workers (excludes self-employed). All three metrics are published by the U.S. Bureau of Labor Statistics (BLS).

Over the four-year period, the average growth rate for the three series is nearly identical at 4.3% to 4.4% per annum. However, the comparison changes during the four years. In 2020, the average worker enjoyed wage gains as earnings and wage growth exceeded inflation. Inflation then surged in 2021 and 2022, so that real earnings and wages contracted. For 2023, inflation and average hourly earnings growth decelerated, but ECI growth continued to accelerate.

When analyzing inflation and wage trends, several technical issues should be noted:

- If economic data are impacted by unusual events, it is important to select a start or base year that represents a “normal” year to compute an accurate impact assessment. The selection of the base year could significantly alter results. This comparison uses 2019 as the base year.
- It is more accurate to quantify impacts using several years of data and not a single year. For example, the annual pay adjustment for certain government officials is based on YOY CPI-U growth for October only, and that month may not reflect the impact of inflation during the full prior year. The CPI-U might spike in May due to high gasoline prices, but then revert to more normal levels by October. Over several years, these types of timing issues generally net out and have less impact on long-term average growth rates.
- The ECI controls for employment composition and worker shifts between sectors, but average hourly earnings does not. ECI recorded weaker gains during the height of the pandemic (2020), but stronger recent gains (2023). For 2020, many lower-wage workers could not or did not work, pushing up average hourly earnings, which gradually reversed as those workers returned. For 2023, the strong ECI growth reflects wage gains not attributable to worker departures or movement between sectors.
- The two labor compensation metrics shown are for wages or earnings only, but BLS also publishes separate indexes for health insurance and total benefits.

Pennsylvania Annual Growth Rates

Year	Philly CPI-U	Hourly Earnings	Employ Cost Index
2019	1.9%	1.4%	1.8%
2020	0.8%	4.4%	2.8%
2021	5.6%	4.5%	4.2%
2022	7.8%	5.5%	4.9%
2023	3.5%	3.0%	5.5%
2019-23	4.4%	4.3%	4.3%

Notes: ECI and Average Hourly Earnings for private workers only for third quarter of calendar year. CPI-U is for October. 2019-23 is average annual growth rate from 2019 to 2023. Source: U.S. Bureau of Labor Statistics.