

Two Views on How Texans Are Doing

Texas employment grew by 3 percent last year, adding to job gains of 2 percent in 2004. The healthy demand for labor has shown up in Texans' paychecks, with real wages increasing between 1 and 2 percent from 2003 to 2005.

These trends are consistent with the behavior of state earnings over the last decade or so. Both firm- and household-based data show wages to be procyclical—rising strongly during the economic boom of the late 1990s and falling after the 2001 recession. Wages bottomed out in 2003 before starting their rebound in 2004 (*Chart A*).

While the two measures of wages move together over the business cycle, they indicate very different earnings levels. The firm-based data show the average weekly wage in Texas was \$767 in 2005, compared with the household data's median weekly wage of \$590.

The discrepancies hold up in comparisons with U.S. wage levels. While firm-based wages in Texas were 98 percent of the national average in 2005, household-based earnings were only 91 percent of the U.S. level (*Chart B*).

The two measures offer contrasting views of Texans' earning power. One shows the state's wages are relatively high and have virtually converged to national levels. The other suggests lower wage levels that lag further behind the nation.

The differences arise from data sources and methodology. Firm-based wage data, compiled by the Bureau of Labor Statistics from state unemployment insurance records, are drawn from quarterly reports by business establishments on employment and wages of full- and part-time workers. These Quarterly Census of Employment and Wages (QCEW) statistics exclude workers not covered by unemployment insurance—many of the self-employed, most agricultural workers on small farms, all members of the armed forces, most railroad employees, some domestic help, most student workers at

Chart A
Two Measures of Texans' Weekly Pay

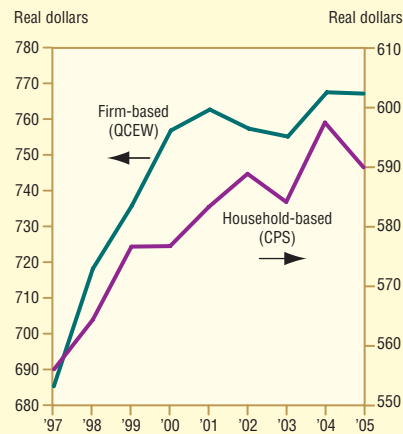
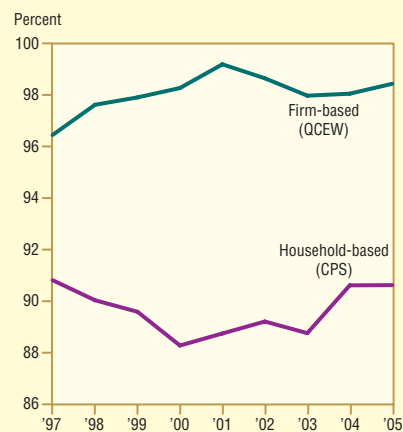


Chart B
Texans' Pay as a Share of U.S.



NOTE: Texas data deflated using CPI-U South; U.S. data deflated using CPI-U; 2005 QCEW wage based on first three quarters.
SOURCES: Current Population Survey and Quarterly Census of Employment and Wages, Bureau of Labor Statistics.

schools and employees of small nonprofit organizations. The data also don't capture those working off the books, some of them illegal immigrants.

Household-based median weekly wages are annual averages of monthly responses in the BLS' Current Population Survey (CPS). These data cover only full-

time wage and salary workers, so they don't pick up all those left out of the establishment data. They do, however, include all sectors and those working off the books, such as some household employees, farm and construction laborers, and some undocumented immigrants.

The household-based wage reports *median*, not *average*, earnings. Because income inequality is greater in Texas than in many other states, median wages are farther below average wages.¹ The household earnings are also depressed because individuals typically underreport their earnings. If those working off the books—and others excluded from the establishment data—earn relatively low incomes, the household wage measure would be reduced even more.

Although the establishment and household data may indicate different wage levels, both show recent gains, reflecting Texas' improving economic performance. Increases in these measures would likely be greater if they included fringe benefits, such as health insurance and retirement benefits.

Over longer periods, wages are an important gauge of living standards. In Texas, where workers typically earn less than the U.S. average, observers closely follow changes in earnings for signs of ebbing or convergence. Closing the gap with the U.S. doesn't hinge on individuals' raises, but rather on changes in the state's economic structure that replace relatively low-wage jobs with more highly paid, highly skilled ones.

—Pia Orrenius and Anna Berman

Note

¹ "Pulling Apart: A State-by-State Analysis of Income Trends," by Jared Bernstein, Elizabeth McNichol and Karen Lyons, Washington, D.C.: Center on Budget and Policy Priorities and Economic Policy Institute, January 2006, available at www.epinet.org/studies/pulling06/pulling_apart_2006.pdf.