Real average hourly earnings have shown two distinct patterns since the beginning of the 1990s. For the first five or six years of the decade, real earnings were essentially flat; between January 1990 and May 1996, earnings growth fell about 2%. Since then, real earnings have grown about 10%. Over the last few months, however, earnings growth has been sluggish. In fact, the year-over-year percent change for monthly data shows that real earnings declined 0.12% in March 2003, the first drop since July 2000.

The growth rate of real earnings increased from early 2000 to the beginning of 2002 and has been declining since then. Although nominal earnings began to fall in early 2001, declining inflation caused real earnings to rise. However, as inflation began to tick up in early 2002, with nominal earnings growth continuing to decline, real earnings growth fell sharply.

Despite lower real earnings, the cost of employing a worker continues to rise, with benefits growing faster than wages and salaries. In the mid-1990s, the wages and salaries component of the Employment Cost Index grew more than the benefits component. But by the beginning of 2000, benefits growth once again exceeded growth in wages and salaries.

Although private workers’ aggregate hours are still low, they have begun to turn around, reversing the trend that started in early 2000. On a positive note, in the last quarter of 2002, growth in private workers’ rate of output per hour remained historically high at 4%, although it was down compared to the first three quarters of that year.