



WAGE COMPRESSION OR WAGE DIVERGENCE?

Real Wage Growth Comparison between
New York City and the U.S., 2019-2023

Mohamed Obaidy, James Parrott, and Apurva Mehrotra

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About the Authors

Mohamed Obaidy is Senior Quantitative Analyst and Economist at the Center for New York City Affairs at The New School.

James A. Parrott is Senior Advisor and Fellow at the Center for New York City Affairs at The New School.

Apurva Mehrotra is Founder & Principal at Clear Capacity Research & Consulting.

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Center for
New York City
Affairs

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The New School Center for New
York City Affairs
New York, NY 10011
centernyc@newschool.edu
www.centernyc.org

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EXECUTIVE SUMMARY

This report provides a comprehensive analysis of inflation-adjusted wage (real wage) growth in New York City from 2019 to 2023, and how these trends compare to national wage dynamics. Our findings show a significant divergence in the city's real wage growth, marked by rapid gains for high-wage workers and slower growth for low-wage earners. In contrast to the national trend of wage compression, where wage inequality between the lowest quintile and the highest quintile narrowed due to minimum wage increases and tight labor markets, New York City has experienced growing wage inequality. This divergence is largely driven by structural factors in the city's economy, inadequate wage policies, and the uneven impact of the pandemic on different sectors of the economy.

New York City's high-wage earners, particularly those in information, finance, technology, and professional services, saw substantial wage gains post-pandemic. Conversely, low-wage workers, especially in industries like hospitality and retail, have struggled to recover financially, with real wage growth lagging behind national trends. This analysis highlights the importance of state policies – particularly those related to the minimum wage – as well as labor market conditions in determining wage growth patterns across the income distribution.

This report uses data from both the Quarterly Census of Employment and Wages (QCEW) and the Current Population Survey (CPS) Merged Outgoing Rotation Group (MORG) to provide a robust picture of wage trends while considering differences among industries, and across the wage distribution.

The report's key findings are as follows:

At the national level, 2019-2023 was a period when wage inequality declined, a break from previous periods:

- **Tight labor markets and state minimum wage increases helped wages grow fastest for low-wage workers, compared to middle- and high-wage workers from 2019-2023.** CPS data show wage compression occurred between the lowest wages (bottom 20 percent) and highest wages (top 20 percent) between 2019 and 2023. Low wages grew by 8.8 percent on an inflation-adjusted basis compared to 4.3 percent for those in the highest wage quintile for the period 2019-2023. Lower-middle wages experienced a growth rate of 4.8 percent compared to three percent for middle wages, and two percent for upper-middle wages.
- **Low-wage workers experienced their highest annualized growth rate during 2019-2023 at 2.1 percent, compared to 1.8 percent for 2013-2019 and 0.6**

percent during 1996-2013. Across the wage distribution, low-wage workers nationally gained the most in terms of income growth since 1996. In contrast, high-wage workers recorded the biggest percentage point loss in their real wage growth rate, with 1.1 percent annual growth rate in 2019-2023 against 2.2 percent in 2013-2019 and 1.4 percent in 1996-2013.

In New York City, 2019-2023 was a period of rising wage inequality, eroding the gains made in the 2010s:

- **Real wage growth was concentrated in high-wage industries from 2019-2023.** QCEW data shows that while the real wage for the average worker in high-wage industries increased by 0.9 percent, it decreased by 2.8 percent in low-wage industries and 2.4 percent in middle-wage industries. Real wage growth in high-wage industries was driven by industries such as Colleges and Universities (7.7 percent), Information (4.4 percent), and Performing Arts and Spectator Sports (2.9 percent). In contrast, real wage decline in low-wage industries was led by Home Health Care Services (-8.9 percent), Amusement, Gambling and Recreation industries (-6.9 percent), and Services to Buildings and Dwellings (-6.8 percent). Administration excluding building services and security (-12.3 percent), Construction (-7.1 percent), and Real Estate and Rental and Leasing (-5.2 percent) led the real wage decline for the middle-wage industries.
- **New York City experienced a wage divergence between the lowest quintile and the top quintile, and between the middle quintiles and the top quintile from 2019-2023.** CPS data shows that real wages in the highest quintile in the city grew three times faster (at 18.2 percent) than real wages in the lowest quintile (at six percent). However, similar to the national trend, real wages in New York City at the lowest quintile recorded a higher growth rate than the lower-middle and middle quintiles (six percent compared to 3.9 percent and 5.4 percent, respectively).
- **In the period since 1996, the city's high-wage workers experienced their highest annualized real wage growth during 2019-2023, at 4.3 percent. This is four times higher than the national rate counterpart.** In contrast, workers in the two lower wage quintiles had stronger annualized wage gains in 2013-2019 than they did in 2019-2023. Workers in the lowest wage quintile saw real wages rise 2.4 percent annually 2013-19 compared to 1.5 percent annually over the past four years.
- **Stagnant state minimum wage policy and a looser labor market explain why New York City low-wage workers lag behind their national counterparts.** Unlike 29 states and the District of Columbia, New York City did not see an increase in the local minimum wage during 2019-2023. During 2023, Governor Kathy Hochul and legislative leaders failed to adequately address this failure, and in the process permanently eroded the earlier success of achieving a \$15 minimum wage in New York City by 2019. New York City's minimum wage has now fallen to the second tier among large U.S. cities, contributing to the lag in low-wage growth compared to the national level.

INTRODUCTION

The Covid-19 crisis imposed a heavy toll on “face-to-face” industries that employ most low-wage workers. In contrast, industries that could transition to remote work arrangements - mostly high-wage industries - were able to better absorb the pandemic’s economic shocks and position themselves for a quick recovery. As a result, most economists¹ expected wage-inequality at the national level to be further exacerbated, due to a greater job loss and the erosion of bargaining power in low-wage sectors. Instead, the U.S. wage distribution experienced an unexpected wage compression after the pandemic. (In this report, wage compression refers to the higher growth of real wages at the bottom of the wage distribution than in the median or the top of the distribution, resulting in a reduction of wage-income inequality between low-wage earners and top-wage earners.)

MIT economist David Autor and colleagues (May, 2024)² document a significant wage compression led by the strong growth of inflation-adjusted wages (real wages) of the bottom 35 percent between January 2020 and 2023³. According to them, this wage compression was “substantially greater” for this period than for the period 2015-2019. They attribute this wage compression mainly to labor market tightness - measured by the unemployment rate and the job-to-job transition rate - where labor demand exceeded labor supply. As a result, firms lost their market power to set wages, particularly in the low-wage industries, due to an increase in competition, since millions of low-wage workers were thrown out of work and many workers chose to switch employers. This resulted in a fast real wage growth at the bottom of the distribution and a reduction of the college wage premium. Hence, the role of education played a less important role in justifying wage inequality. The authors also explored other factors that may have explained the rapid real wage growth of low-wage earners and the decrease of employers’ market power. However, when analyzing wage data across all states, they found that on average labor market tightness has been a strong predictor of real wage growth among low-wage workers. This means that faster low-wage growth was more likely to happen in states where the labor market was tighter.

Despite the Federal Reserve’s attempt to tame high inflation through a high interest rate policy, unemployment did not increase, and the U.S. labor market remained very strong after the pandemic up until 2023. Figure 1 illustrates the monthly seasonally

1. Autor, D., & Reynolds, E. B. (2020, July). The nature of work after the Covid crisis: Too few low-wage jobs. Brookings Institute.

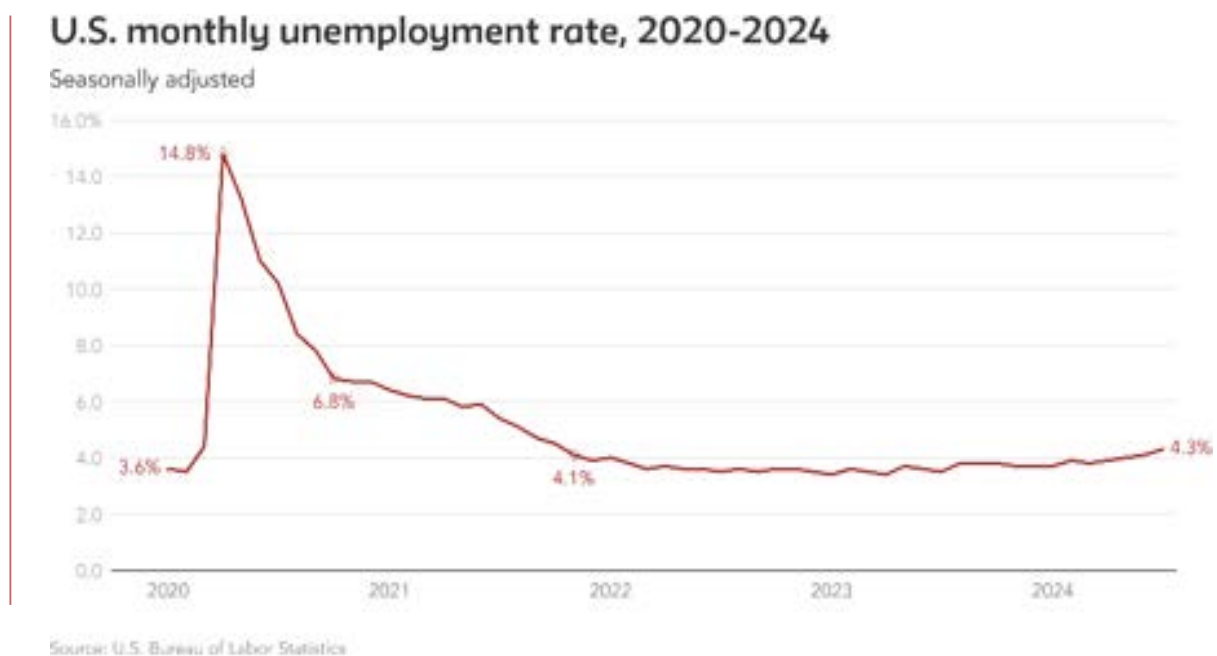
2. Autor, D., Dube, A., & McGrew, A. (2023, March). The unexpected compression: Competition at work in the low-wage labor market (NBER Working Paper No. 31010). National Bureau of Economic Research. Revised November 2023.

3. Autor et al. use January 2020 as a starting point. Since our analysis is based on annual averages for the period 2019-2023, using the annual average of 2019 is equivalent to using January 2020 as a reference point.

adjusted unemployment rate trend in the U.S. since the start of the pandemic. After reaching 14.8 percent in 2020, the monthly unemployment rate averaged 3.6 percent in both 2022 and 2023. For the same period, the Federal Reserve's Federal Funds effective monthly rate averaged 3.6 percent⁴. In 2023 alone, it averaged five percent⁵.

It is surprising that the labor market remained very strong despite the Federal Reserve's effort to slow down economic activity. Some economists^{6,7,8} explain this discrepancy by the shrinking pool of available workers, as illustrated by the labor force participation rate decline from 63.3 percent in December 2019 to 62.5 percent in December 2023⁹. In contrast, Lee et al. (2023) suggest that this explanation is misleading and exaggerated¹⁰. The labor force participation rate trend was downward even before the pandemic. According to the authors, what explains labor market tightness is the lower number of hours worked per worker rather than the shrinking number of workers. This is corroborated by Autor et al.'s findings showing that there has been a rise in the wage-separation elasticity – a key measure of labor market competition that captures how likely a worker will quit a job in response to a change in wages - among young

Figure 1



4. Author's calculation based on U.S Bureau of Labor Statistics data.

5. Authors' calculation based on the Board of Governors of the Federal Reserve System data. The estimates are based on seasonally unadjusted data.

6. Faria e Castro, M. (2021). The Covid retirement boom. *Economic Synopses*, (25), 1-2.

7. Forsythe, E., Kahn, L. B., Lange, F., & Wiczer, D. (2022). Where have all the workers gone? Recalls, retirements, and reallocation in the Covid recovery. *Labour Economics*, 78, 102251.

8. Goda, G. S., & Soltas, E. (2022). The impacts of Covid-19 illnesses on workers (NBER Working Paper No. 30435). National Bureau of Economic Research.

9. Monthly labor force participation rate, seasonally adjusted, from the Federal Reserve Economic Data.

10. Lee, D., Park, J., & Shin, Y. (2023, January). Where are the workers? From Great Resignation to Quiet Quitting (NBER Working Paper Series). National Bureau of Economic Research.

non-college workers in particular¹¹.

The increase of state minimum wages in 29 states and the District of Columbia¹² (accounting for 62 percent of national employment¹³) has also played a key role in explaining the rapid real wage growth of low-wage earners. Twenty-two states increased their minimum wage in 2022 alone, benefiting nearly 10 million workers¹⁴. Economic Policy Institute economists Elise Gould and Katherine deCourcy (2023 and 2024) have shown that real wage growth for the bottom 10 percent has been the strongest for the period 2019-2023 mainly due to state minimum wage increases¹⁵.

To explore the impact of state minimum wage policy on low-wage growth, Gould and deCourcy analyzed the Current Population Survey (CPS) Merged Outgoing Rotation Group (MORG) data and divided the wage distribution in deciles, or ten equal-sized groups of all U.S. workers in order of their wages, from lowest to highest. They then created five wage groups: the low-wage category that represents the first decile; the lower-middle wage group that averages 20th-40th percentile wages; the middle-wage that represents the 40th-60th percentiles; the upper-middle wage 60th-80th percentiles; and the high-wage earners for the 90th percentile¹⁶.

Their results show that while high-wage earners saw their wages grow by 4.4 percent¹⁷ during 2019-2023, low wages grew by 13.2 percent. They increased by five percent for the lower-middle wage group, three percent for the middle-wage, and two percent for the upper-middle wage. In fact, this rapid real wage growth for low-wage earners has been the strongest in history since 1979. Using annualized growth rates, the authors estimate that low wages grew by 0.1 percent for the period 1979-2019 compared to 3.1 percent for the 2019-2023 period. It is interesting to note that wage growth has been strongest among higher wage categories for the 1979-2019 period, while the opposite is observed for the 2019-2023 period. From 2019-2023, each lower-wage category grew faster than each successive higher-wage group (with the exception of high wages that grew by 1.1% compared to 0.5 percent for upper-middle wages and 0.7% for middle wages).

11. Autor, D., Dube, A., & McGrew, A. (2023, March). The unexpected compression: Competition at work in the low-wage labor market (NBER Working Paper No. 31010). National Bureau of Economic Research. Revised November 2023.

12. Autor, D., Dube, A., & McGrew, A. (2023, March). The unexpected compression: Competition at work in the low-wage labor market (NBER Working Paper No. 31010). National Bureau of Economic Research. Revised November 2023.

13. As of July 2024. Author's calculation based on Bureau of Labor Statistics Data.

14. Hickey, S. M. (2023, December 21). Twenty-two states will increase their minimum wages on January 1, raising pay for nearly 10 million workers. Working Economics Blog (Economic Policy Institute).

15. Gould, E., & deCourcy, K. (2024, March 21). Fastest wage growth over the last four years among historically disadvantaged groups. Low-wage workers' wages surged after decades of slow growth. Economic Policy Institute.

16. For EPI's wage measurement methodology, see <https://www.epi.org/data/methodology/>

17. In their initial results, Gould and deCourcy estimated high wage growth to be at 0.9 percent and low-wage growth at 12.1 percent for the period 2019-2023. In this paper, we report their latest corrected estimates.

According to Gould and deCourcy, state minimum wage policy was the most decisive factor in gains made by low-wage workers. Undoubtedly, expansionary fiscal policy helped mitigate the impact of the pandemic and laid the ground for rapid economic recovery and a surge in employment, resulting in a tight labor market. However, the significant increase of nominal minimum wages in 29 states and the District of Columbia (increasing by 28.6 percent on average during 2019-2023) had a much greater effect on wage compression. This helped erode the impact of high inflation on low-wage workers' disposable income and increase their bargaining power in the labor market. In fact, real wages of the bottom 10 percent grew 50 percent faster in states where minimum wage has increased during 2019-2023. In states where the minimum wage changed, real wages for low-wage workers increased by 11 percent. In states where the minimum wage did not change, real wages for low-wage workers grew by 7.3 percent¹⁸.

The findings mentioned above support a national narrative on the reduction of wage inequality since the pandemic and the significant improvement in earnings for low-wage workers in particular. However, few studies have tested this narrative at the local level. New York City has been lagging the national economic recovery and many low-wage "face-to-face" industries remain well below their pre-pandemic employment levels. The city's labor market has not been as tight as in the rest of the U.S. and the city's minimum wage level remained unchanged at \$15 between 2019 and 2023. It finally increased in 2024 by \$1, reaching \$16 an hour¹⁹. This prompted us to test the wage compression hypothesis in the context of New York City and compare it to the U.S. Have low-wages grown faster than high wages in the city since the pandemic? Since 2019, have New York City low-wage workers, like those in the nation as a whole, recorded their fastest wage growth over the past quarter-century?

In the following two sections of this report, we first show that wage compression occurred at the national level (section 2) while wage divergence happened in New York City (section 3).

18. Derenoncourt and Weil (2024) also show the importance of minimum wage in increasing wages in specific sectors. Applying an event study analysis, they analyze thousands of private firms in the retail sector that implemented Voluntary Minimum Wages (VMWs) policy between the 2014-2023 period. Their findings show that while the impact of VMWs policy had limited impact on the overall labor market, it resulted in sizable increases in low wages and employment in the retail sector and impacted about 3 million jobs. Derenoncourt, E., & Weil, D. (2024, June). Voluntary minimum wages (NBER Working Paper No. 32546). National Bureau of Economic Research.

19. See the history of the minimum wage in New York State at the New York Department of Labor's website: <https://dol.ny.gov/history-minimum-wage-new-york-state#:~:text=New%20York%20City, and%20after%20January%201%2C%202024.>

I. WAGE COMPRESSION IN THE U.S.

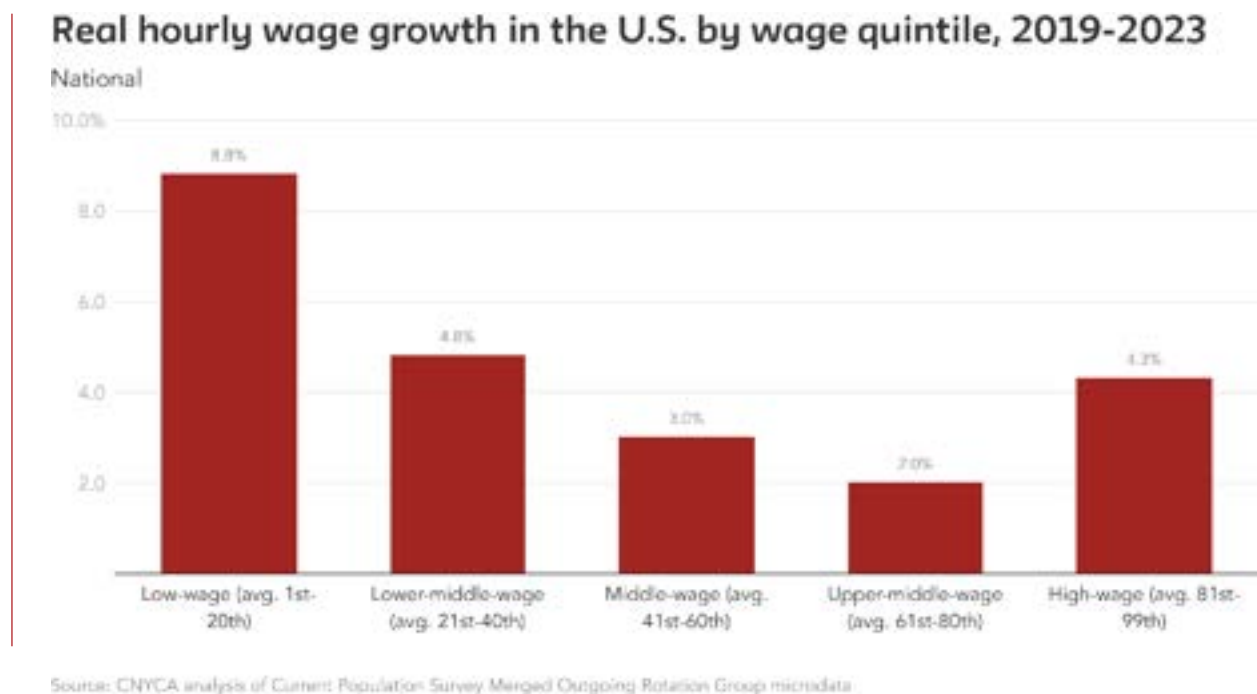
Similar to Gould and deCourcy (2024) and Autor et al. (2024), we use the monthly CPS Merged Outgoing Rotation Group (MORG) microdata made available by the Economic Policy Institute (EPI)²⁰. We divide wage earners into five quintiles and use the average of the quintiles to find the average hourly wage for each wage quintile group. The wage groups follow the wage quintile distribution and are categorized as follows: low-wage for the average of 1st-20th percentile; middle-low wage for the average of 21st-40th percentile; middle-wage for the average of 41st-60th percentile; upper-middle wage for the average of 61st-80th percentile; and high wage for the average of 81st-99th percentile. This approach follows EPI's wage measurement method²¹ except for the top and bottom tails of the distribution. To ensure result comparability between national and local real wage growth, we use the Consumer Price Index for all Urban Research Series (CPI-U-RS) to convert wages into 2023 dollars and adjust for inflation effects. EPI reports wage distribution by deciles and uses linear interpolation to create wage cutoffs for the low- and high-wage categories (10th and 90th percentiles), while using percentile averages for the middle-wage category (20th-40th for the lower-middle wage; 40th-60th for the middle-wage; and 60th-80th for the upper-middle-wage). While we do not divide wage earners into deciles, we estimate wage distribution by quintiles and report the average wage by each quintile.

When we analyze the U.S. wage distribution by quintiles, our results match the trend found by Gould and deCourcy (2024) and Autor et al. (2024). As illustrated in Figure 2, low-wage earners – those in the bottom 20 percent – recorded the fastest growth across the wage distribution between 2019 and 2023. Low wages grew by 8.8 percent on an inflation-adjusted basis compared to 4.3 percent for those in the highest wage quintile. Lower-middle wages experienced a growth rate of 4.8 percent compared to three percent for middle wages, and two percent for upper-middle wages. This result confirms the national wage compression between the bottom and the top of the wage distribution occurring from 2019-23. Similar to Gould and deCourcy, we also observe that each wage category grew faster than its successive higher category except between the middle-wage and the high-wage quintiles.

20. For details on how EPI makes this data available, visit <https://microdata.epi.org/>

21. Gould, DeCourcy (2024) and Gould, DeCourcy (2023)

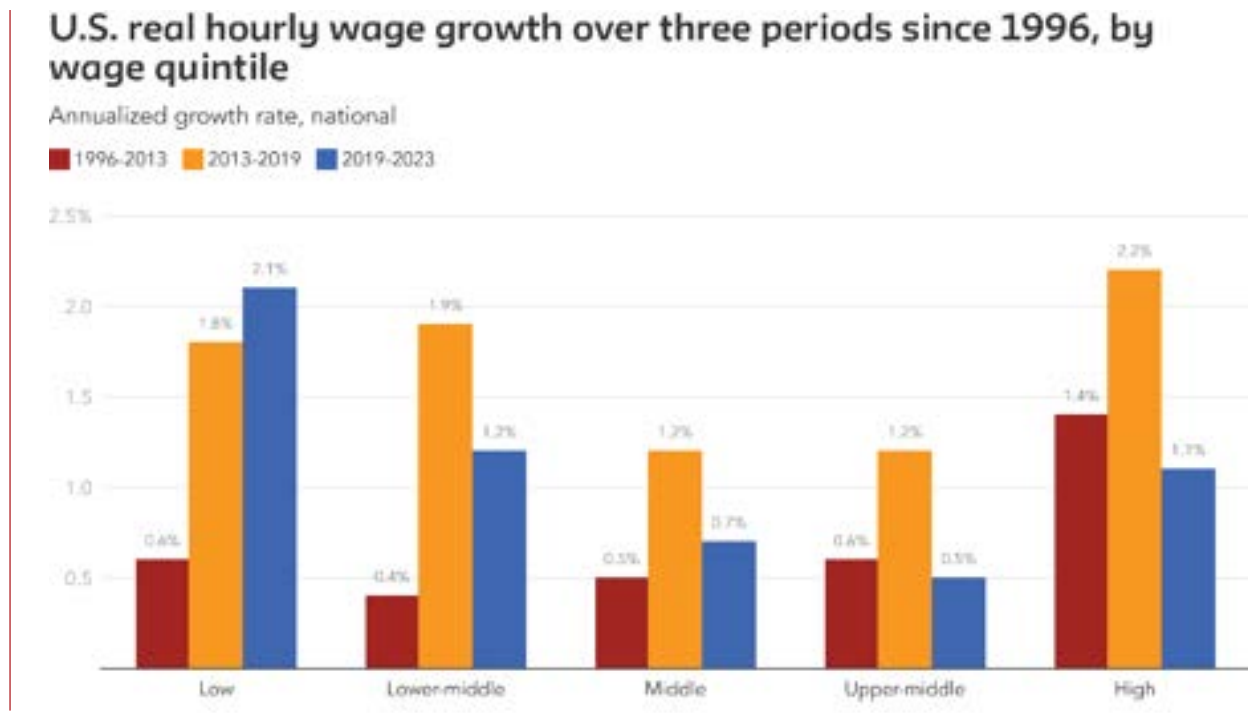
Figure 2



Our historical analysis of real wage growth since 1996 also corroborates the narrative at the national level. Figure 3 shows that low wages experienced their highest annualized growth rate during 2019-2023 at 2.1 percent compared to 1.8 percent for 2013-2019 and 0.6 percent during 1996-2013. Across the wage distribution, low-wage workers gained the most in terms of income growth. In contrast, high-wage workers recorded the biggest percentage point loss in their real wage growth rate with 1.1 percent annual growth rate in 2019-2023 against 2.2 percent in 2013-2019 and 1.4 percent in 1996-2013.

The pandemic has also decelerated real wage gains for the middle class. Real wages in the lower-middle wage quintile grew by 1.2 percent annually after the pandemic compared to 1.9 percent in 2013-2019. Similarly, in the middle-wage group real wages increased by 0.7 percent annually in 2019-2023 compared to 1.2 percent in 2013-2019. This phenomenon is almost identical for the upper-middle wage category with 0.5 percent annual real wage growth in 2019-2023 compared to 1.2 percent in 2013-2019. In fact, for the upper-middle wage workers their annual real wage growth rate after the pandemic was even lower than their 1996-2013 rate of 0.6 percent.

Figure 3



Source: CNYCA analysis of Current Population Survey Merged Outgoing Rotation Group microdata

While these results seem to confirm the wage compression narrative, it is worth noting that high-wage workers had a higher total (Figure 2) and annual real wage growth (Figure 3) in 2019-2023 than the middle and upper-middle groups. Hence, while wage inequality between the low- and high-wage earners seems to decrease at the national level, the opposite is happening between middle-wages and high-wages.

II. WAGE DIVERGENCE IN NYC

Real wage divergence by industry

To analyze real wage growth in New York City, we first used the Quarterly Census of Employment and Wages (QCEW) data released by the Department of Labor, in order to have a clearer picture of wage dynamics across industries. The QCEW data provide more industry detail and disaggregation than the CPS data allow (see Appendix). QCEW data is collected from employers when they submit their unemployment insurance payroll taxes. Because this data is only available on an average worker basis, it does not allow the analysis for wage growth across the wage distribution within each industry. We group industries into three wage categories: low-wage industries where wages average less than \$65,000; middle-wage industries for workers earning between \$69,000 and \$105,000 a year on average; and high-wage industries for those whose annual wage is on average between \$113,000 and \$362,000. We then use the Consumer Price Index for all Urban Research Series (CPI-U-RS) to convert wages into 2023 dollars to adjust for inflation effects. This exercise is an updated version of age growth analyses published by the Center for earlier periods^{22,23}.

The QCEW data analysis shows that wage compression did not happen in New York City between 2019 and 2023. In fact, the low-wage industries recorded the highest average real wage decline since 2019, while real wages grew at a stable rate for high-wage industries. As Figure 4 illustrates, while the average real wage in high-wage industries increased by 0.9 percent, it decreased by 2.8 percent in the low-wage industries and 2.4 percent in the middle-wage industries²⁴. The pandemic crisis exacerbated wage and income inequality between low and high-wage earners, and mostly benefited wage earners at the top of the income distribution in New York City. Low-wage earners do not appear to have increased their bargaining power for higher

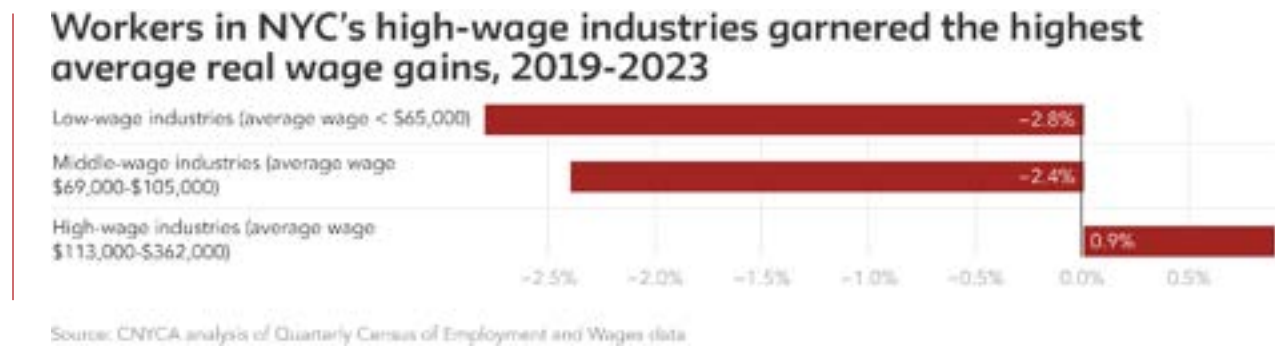
22. Melodia, L. (2023, August). Pandemic wage gains in New York City's high-wage industries outpace gains for low- and middle-wage industry workers. The Center for New York City Affairs. <https://www.centrernyc.org/reports-briefs/pandemic-wage-gains-in-new-york-citys-high-wage-industries-outpace-gains-for-low-and-middle-wage-industry-workers?rq=high%20wage%20>

23. Parrott, J. (2024, March). Strong January job gains and a surprisingly large array of annual benchmark employment revisions. The Center for New York City Affairs. <https://www.centrernyc.org/reports-briefs/strong-january-job-gains-and-a-surprisingly-large-array-of-annual-benchmark-employment-revisions>

24. When we use the metropolitan CPI for Urban Wage earners and Clerical Workers (CPI-W), low-wage growth is 0.2 percent while middle-wage growth is 0.8 percent, and high-wage growth reaches 4 percent for the 2019-2023 period. Since we are comparing New York City to the U.S., we used the national urban CPI-U-RS for best practice. While both CPIs tend to be close and move in a similar fashion, they diverged quite significantly during the 2019-2023 period due to the expanded target population included in the CPI-U-RS and to the different weight given to some items in the CPI-U-RS and recorded a faster price increase.

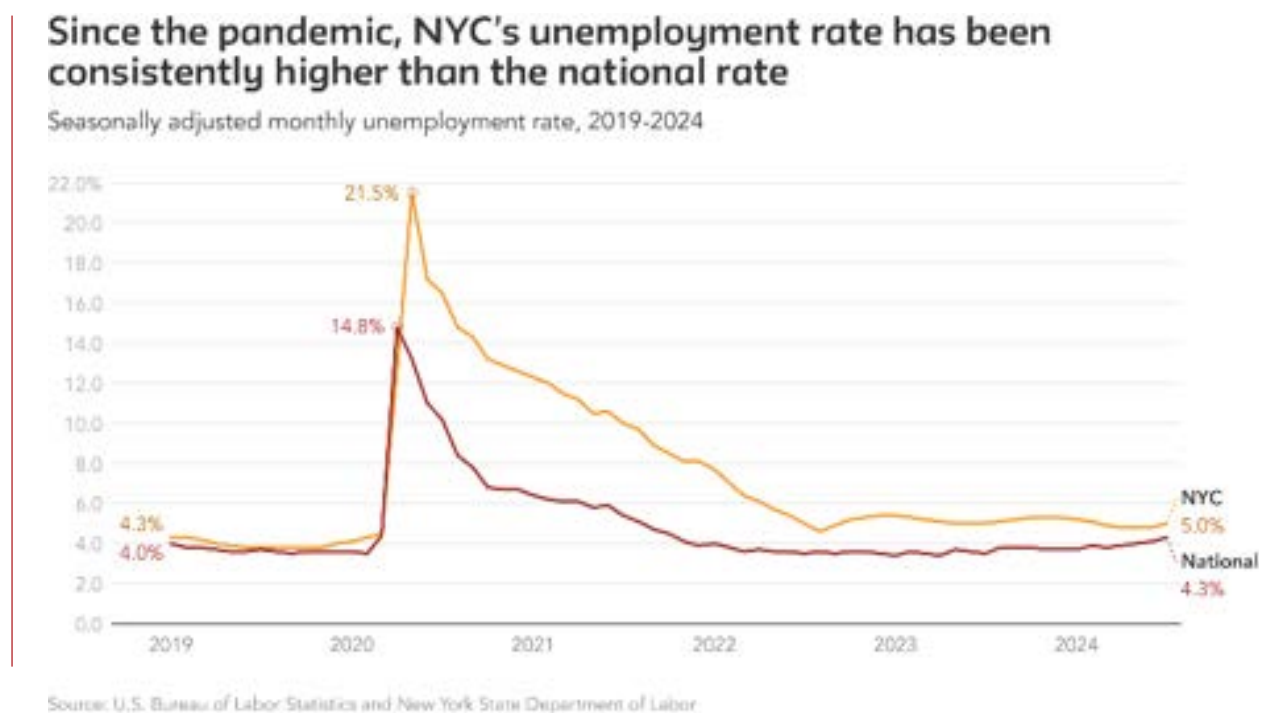
wages in New York City during the pandemic.

Figure 4



As Figure 5 shows, New York City's unemployment rate was quite similar to the national level in 2019 (four percent monthly average in New York City compared to 3.7 percent nationally), after which New York City's unemployment rate remained significantly higher. In the second quarter of 2024, the national unemployment rate stood at 4.0 percent while it reached 4.8 percent in New York City. The high unemployment rate acted as a disciplining device²⁵ for New York City workers. As elaborated by Shapiro and Stiglitz (1984), this concept refers to a situation when high unemployment puts downward pressure on workers' ability to bargain for higher wages. Since employment opportunities are scarcer, workers are less likely to express grievances or manifest their disagreement with their employers.

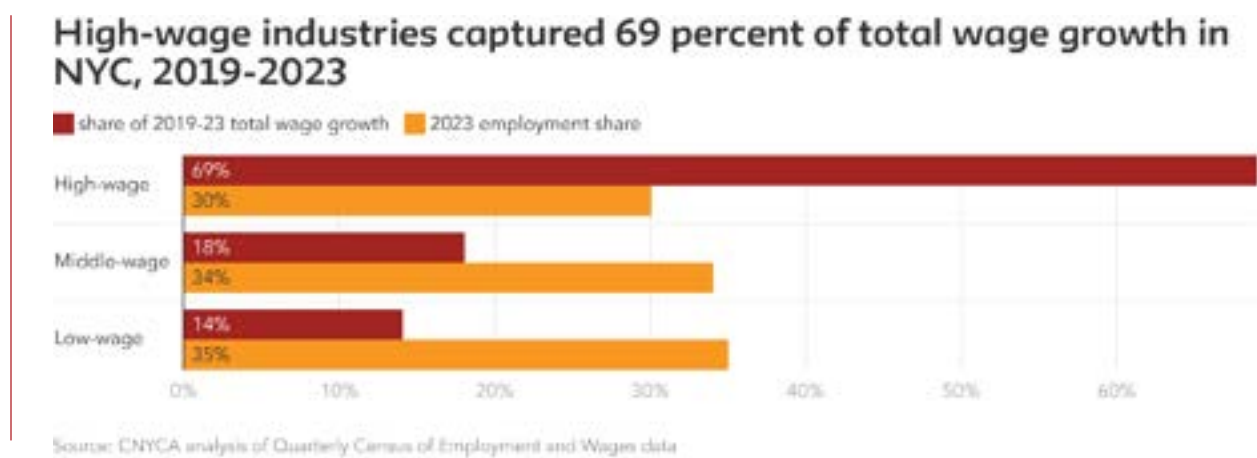
Figure 5



25. Shapiro, C., & Stiglitz, J. E. (1984). Equilibrium unemployment as a worker discipline device. *The American Economic Review*, 74(3), 433-444.

The low-wage workers' loss of bargaining power, combined with a stagnant state minimum wage (see section 4), is illustrated by their low share in the total wage growth. As displayed in Figure 6, workers in high-wage industries captured 69 percent of the total wage growth between 2019 and 2023 while only comprising 30 percent of total city workers in 2023. In contrast, workers in middle-wage industries accounted for 18 percent of the total wage growth while comprising 34 percent of total payroll workers in New York City. It is striking that workers in low-wage industries, who comprise the highest share of workers (35 percent), only captured 14 percent of total wage growth. We can infer from these results that the distributional benefits of economic growth in New York City for the 2019-2023 period have been biased against low-wage workers and in favor of high-wage workers.

Figure 6



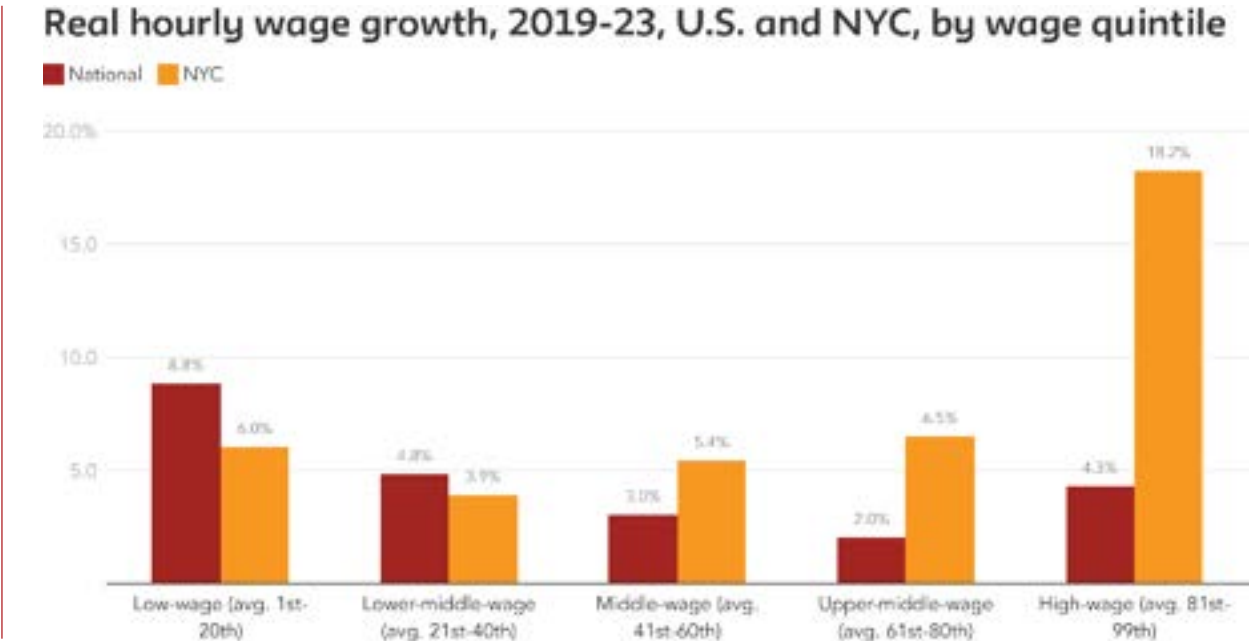
The QCEW analysis shows that when looking at the average real wage per industry group, high-wage industries grew at a steady rate since 2019 while low- and middle-wage industries experienced an important average real wage decline in New York City. This alone already contradicts the national wage compression narrative. In addition, it provides a clear picture of the dynamics across the wage distribution per industry. For instance (see Appendix), low-wage industries that faced the highest average real wage decline between 2019-2023 are home health care services (-8.9 percent), Amusement, Gambling and Recreation industries (-6.9 percent), and Services to Buildings and Dwellings (-6.8 percent). Conversely, high-wage industries that experienced the highest average real wage growth are Colleges and Universities (7.7 percent), Information (4.4 percent), and Wholesale Trade (2.6 percent).

Similar to the national analysis in the previous section, we analyze CPS data for New York City and estimate real wage change across the different quintiles of the distribution.

Real wage divergence by worker

The results in Figure 7 show that New York City is experiencing a significant wage divergence between the bottom and the top of the wage distribution, in contrast to the national wage compression narrative. During the 2019-2023 period, New York City's real wages in the highest quintile grew three times faster than real wages in the lowest quintile, a dramatic 18.2 percent growth in the highest quintile against just six percent in the lowest. The difference between real wage growth rate at the highest quintile is quite remarkable at the national versus city levels (4.3 percent compared to 18.2 percent).

Figure 7



Source: CNYCA analysis of Current Population Survey Merged Outgoing Rotation Group microdata

In contrast, real wages in the lowest-wage quintile increased at a slower rate in New York City than in the rest of the U.S., 6.0 percent against 8.8 percent, respectively. This is also the case for the lower-middle-wage quintile, where real wages increased by 3.9 percent in New York City compared to 4.8 percent nationally. However, similar to the national trend, real wages in New York City at the lowest quintile recorded a higher growth rate than the lower-middle and middle quintiles, (6.0 percent compared to 3.9 percent and 5.4 percent, respectively).

Unlike the national trend, the top two wage quintiles in New York City recorded a higher growth rate than the rest of the wage distribution. Workers in the bottom two quintiles experienced greater wage growth at the national level compared to New York

City. However, the three higher quintiles of New York City workers experienced faster wage growth than their national counterparts.

The overall wage trend is similar for New York City whether we use QCEW or CPS data; while wage inequality has been reducing nationally, there has been a growing wage divergence between low-wage earners and high-wage earners in New York City since 2019. The robustness of our results confirms the divergence narrative and contradict the wage compression hypothesis in New York City. A recent report from the New York City Comptroller's Office²⁶ also highlights wage divergence. Using QCEW data, the report shows that the city's real wage growth has been sluggish in low-wage sectors alongside steep job losses in those sectors. Within many low-wage industries, wage and salary earnings lagged behind inflation.

What accounts for the somewhat different picture of New York City wage growth, using QCEW data versus CPS data (Figures 4 and 7)? The QCEW provides data on average wages over a three-month period, while the CPS provides data on hourly wages of workers. Workers in low-wage industries worked fewer hours in 2023 compared to 2019, making the total change appear negative in Figure 4 compared to the positive – albeit, low – growth rate in Figure 7. At the other end of the spectrum, there is, of course, a lot of overlap between workers in the top quintile (Figure 7) and average workers in high-wage industries such as finance, technology and professional services (Figure 4), both of which had the strongest wage gains. A third possible factor may be that the QCEW data reflect all payroll jobs located in New York City (regardless of where the worker lives) whereas the CPS data includes only New York City residents. Non-resident commuters tend to be concentrated in higher-paying industries.

While low-wage workers recorded their fastest real wage growth over the 2019-2023 period at the national level, the New York City picture is much different in comparing the last four years to the 2013-19 period. Similar to EPI's national analysis, we compare real wage growth per wage quintile across three time periods: 1996-2013, 2013-2019, and 2019-2023. These time grouping reflect the evolution of New York City's minimum wage: 1996-2013 constitutes a pre-\$15 minimum wage period²⁷; 2013-2019 is when the \$15 minimum wage policy was implemented and phased in; and 2019-2023 is the period that is the focus of this study. Figure 8 shows that the city's high-wage workers saw greater annual wage gains in 2019-2023 than they did during the six years before the pandemic, 2013-2019. Since 1996, they experienced their highest annual real wage growth at 4.3 percent. This is four times higher than their national counterpart. In addition, real hourly wages for workers in the upper middle wage quintile rose 1.6 percent a year in 2019-2023, better than the 1.1 percent annual growth over the 2013-19 period.

26. Brindisi, F., Olson, K., Siegel, J., & Bram, J. (2024, June 11). New York by the number: Monthly economic and fiscal outlook (No. 90). NYC Comptroller Office's Newsletter. <https://comptroller.nyc.gov/newsroom/newsletter/new-york-by-the-numbers-monthly-economic-and-fiscal-outlook-no-90-june-11-2024/>

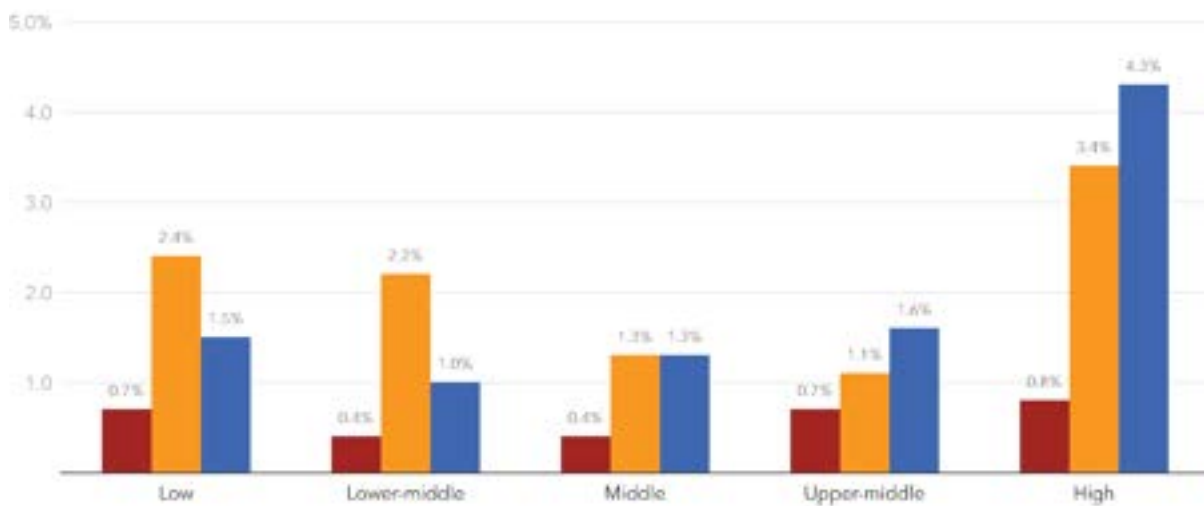
27. We start our analysis in 1996, because this is the first year CPS ORG data is available for New York City.

Figure 8

NYC real hourly wage growth over three periods since 1996, by wage quintile

Annualized growth rate, NYC

■ 1996-2013 ■ 2013-2019 ■ 2019-2023



Source: CNYCA analysis of Current Population Survey Merged Outgoing Rotation Group microdata

At the other end of the spectrum, workers in the two lower wage quintiles had stronger annual wage gains in the six pre-pandemic years, 2013-19, than over the past four years. Workers in the lowest wage quintile saw real wages rise 2.4 percent annually 2013-19 compared to 1.5 percent annually over the past four years.

These results suggest that in New York City, the pandemic effects have contributed to slowing down real wage gains for low-wage workers while boosting high-wage real wage growth. Nevertheless, the evolution of New York State minimum wage policy seems to be the most decisive factor that may explain the more rapid low-wage growth in the pre-pandemic years. The significant increase in New York State minimum wage during 2013-2019 allowed the city's low wages to grow at a higher rate than all middle-wage groups up until the pandemic. However, unlike many other states, New York failed to index its state minimum wage to the consumer price index. As mentioned above, 29 states and District of Columbia increased their state nominal minimum wage by 28.6 percent on average (while national inflation grew at 19.6 percent)²⁸ for the 2019-2023 period. This constituted a real gain for low-wage workers. In contrast, the state minimum wage in New York City remained unchanged.

While high-wage workers significantly increased their real hourly wages before the pandemic, the post-pandemic recovery accentuated this trend in New York City. This divergence from the national picture finds its roots in New York City's economic

28. Author's calculation based on CPI-U-RS.

structure. The city is home to powerful firms in the financial, media, and technological sectors that pay high wages and saw their bargaining power further increase after the pandemic²⁹. The finance, media, and technology industries benefitted tremendously from the pandemic economy, and their profits soared during that period. This led to a significant increase in job and wage growth in these industries during the period 2019-2023. Average real wages grew by 4.4 percent in the Information industry, 2.9 percent in the Performing Arts and Spectator Sports industry, and 1.3 percent in the Professional and Technical Services industry between 2019-2023 (See Appendix). In contrast, the lower-middle and middle-wage groups seems to be the most impacted by income loss: not only did their real hourly wages increase the least in 2019-2023, but in all periods their real wages grew at a slower rate than for the low- and high-wage groups. This phenomenon seems to illustrate the historical tendency of income inequality around the world: the slow erosion of the middle class and increased polarization between the top income earners and the rest of society^{30, 31}.

Labor market tightness and state minimum wage increases helped bolster low-wage gains across the U.S. since 2019. Meanwhile, New York City exhibits a wage divergence pattern that can be attributed to stagnant minimum wage policy and looser local labor market compared to the national level. Both of these factors help explain why the city's low-wage workers are lagging behind their counterparts nationally and why policies to increase low- and middle-wage workers' bargaining power are needed.

29. As an example, New York City attracted 14.3 percent of employees in the tech sector while losing 10.7 percent of relocating tech workers in 2023, making it a net gain of 3.6 percent and the top destination in the country. Chernova, Y. (2024, April 15). New York tops destinations for relocating tech workers. Wall Street Journal.

https://www.wsj.com/articles/new-york-tops-destinations-for-relocating-tech-workers-f1c49fbe?st=1z-1j3eahkm1hsc5&reflink=desktopwebshare_permalink

30. Stiglitz, J. E. (2012). *The price of inequality: How today's divided society endangers our future* (2nd ed.). W.W. Norton & Company.

31. Piketty, T. (2014). *Capital in the twenty-first century*. The Belknap Press of Harvard University Press.

III. WHY NEW YORK CITY LOW-WAGE WORKERS ARE FALLING BEHIND

Autor et al. (2023)³² and Gould and deCourcy (2024)³³ both show how labor market tightness and state minimum wage increases can facilitate a decline in wage inequality nationally. While labor market tightness plays a central explanatory role in Autor et. al (2023) research, Gould and deCourcy emphasize the primary role of state minimum wage policy to help low-wage workers increase their wages.

Our New York City analysis illustrates a wage pattern that diverges from the national trend. While low wages have been growing since 2019, their increase has been slower than the national average and much slower than high wages in New York City. Wages for low-wage workers increased more strongly in the six pre-pandemic years when the state's hourly minimum wage more than doubled (from \$7.50 in 2012 to \$15 in 2019). The State's failure to index the minimum wage to inflation during minimum wage reforms passed in the 2010s, combined with a sluggish job recovery, help explain why New York City's low-wage workers are falling behind.

As Figure 5 shows, the 2019-2023 labor market was not tight in New York City. The city experienced a high unemployment rate (averaging 7.5 percent monthly compared to 4.9 percent nationally for the same period). Furthermore, in a CNYCA report published earlier this year, Parrott and Sweeting showed how New York City job losses in recent years were not uniform across industries and workers, with the lowest-paid workers being impacted the most³⁴. As a result, New York City's labor market did not act as a wage booster for low-wage workers.

New York State also lagged the 29 states and District of Columbia in raising the state minimum wage. New York State first phased in a doubling of the minimum hourly

32. Autor, D., Dube, A., & McGrew, A. (2023, March). The unexpected compression: Competition at work in the low-wage labor market (NBER Working Paper No. 31010). National Bureau of Economic Research. Revised November 2023.

33. Gould, E., & deCourcy, K. (2024, March 21). Fastest wage growth over the last four years among historically disadvantaged groups. Low-wage workers' wages surged after decades of slow growth. Economic Policy Institute.

34. Parrott, J., & Sweeting, G. (2024, January). New York's 2024 economic and budget outlook: Post-pandemic reckoning for the city and the state. The Center for New York City Affairs.

wage (from \$7.25 to \$15) in the period 2013-2019³⁵. This was also a period of strong economic growth in the city and low inflation nationally. In fact, with unemployment averaging four percent or less in the two years before the pandemic, Parrott suggests that New York City had achieved full employment in 2017-2019. Low- and lower-middle wage quintile groups experienced strong real wage growth during this time period, at 2.4 and 2.2 percent, respectively. During this time period, the low- and lower-middle wage quintiles also experience higher annualized wage growth locally compared to nationally.

New York State implemented no minimum wage increases in New York City during 2019-2023, a period also marked by the highest inflation the U.S. has experienced in 40 years. As a result, the value of New York City's minimum wage declined during. This undoubtedly contributed to the low real wage growth for low- and lower-middle wage quintile groups in New York City during this period. It also demonstrates the necessity of indexing the minimum wage to inflation. Had it been indexed to inflation, New York City's minimum wage would not have lost its value during this time.

In 2023, a proposal to phase in a "catch-up" minimum wage increase and index the minimum wage going forward to the sum of the change in the consumer price index and labor productivity had considerable support in the State Legislature. But it was opposed by Governor Kathy Hochul. The proposal would have raised the State minimum wage in New York City and the downstate suburbs to \$21.25 by 2026. This minimum wage reform proposal included the labor productivity growth in the indexation formula to ensure that low-wage workers shared in broad, economy-wide productivity gains³⁶. However, the New York State Legislature adopted the governor's alternative proposal that included a \$1.00 an hour increase to \$16.00 in New York City and the downstate suburbs in 2024 and 50 cent increases in 2025 and 2026, after which annual increases would depend on the change in the consumer price index.³⁷

This policy failure on the part of Governor Hochul and Legislative leaders means that the earlier success in achieving a \$15 minimum wage by 2019 has been permanently eroded and that New York City's minimum wage has now fallen to the second tier among large U.S. cities. In comparison to the city's current \$16.00 hourly minimum wage, Seattle's minimum wage is \$19.97, and minimum wages are \$18.67 in San

35. Parrott, J. (2022, March). Full employment and rising wages: New York City's twin economic challenges in emerging from the pandemic. The Center for New York City Affairs.

<https://static1.squarespace.com/static/53ee4f0be4b015b9c3690d84/t/6230d7b8bbf-28f0a1935b600/1647368121675/CNYCA+Twin+Challenges+Mar+11%2C+2022.pdf>.

36. The Economic Policy Institute notes that the failure of average pay for production and nonsupervisory workers to keep pace with labor productivity since the late 1970s has been a significant factor in the nation's rise in income inequality. From 1979 through the first quarter of 2024, labor productivity rose by 80.9%, 2.7 times the 29.4% increase in average hourly compensation for production and nonsupervisory workers. Economic Policy Institute, "The Productivity-Pay Gap," Updated August 2024. <https://www.epi.org/productivity-pay-gap/>

37. However, under the 2023 New York State minimum wage adjustment, no annual increases in 2027 or after will take place in years when fairly modest unemployment increases or employment decreases occur during the 12-month period ending the preceding July.

Francisco, \$18.29 in Denver, and between \$16.20 and \$17.55 in Chicago, Los Angeles, Washington D.C., and San Jose.

Low wages and poor job quality have been persistent issues in New York City³⁸. Twenty-five years ago, there was significant resistance to the Giuliani administration's "work first" welfare reform approach. Less than 10 years later, Mayor Bloomberg's poverty commission identified a substantial number of "working poor" and recommended policies to tackle the issue of low-paying jobs (although very little official action resulted). In the six years leading up to the pandemic (2013-2019), robust job growth and a doubling of the minimum wage improved earnings for those in the lower half of the wage distribution. However, since then factors such as high unemployment, inadequate increases in the minimum wage, and uneven improvements in job quality have resulted in 30 percent of New York City workers earning \$18 an hour or less, with nearly a million individuals remaining in poverty despite being employed³⁹.

No single policy will fix the city's polarized economy. But as we saw in the decade preceding the pandemic, a full-employment economy coupled with rising labor standards can make a powerful difference.

38. Parrott, J., & Moe, L. K. (2023, January). NYC's unsettled Covid-19 era labor market: The case for an active labor market policy. The Center for New York City Affairs. https://static1.squarespace.com/static/53ee4f0be4b015b9c3690d84/t/63c744b58869796dc9bce8f0/1674003646759/NYC%27s+Unsettled+-Covid-19+Era+Labor+Market_Parrott+%26+Moe+%28CNYCA%29.pdf

39. CNYCA analysis of Current Population Survey hourly wage data, and of the American Community Survey 2019 5-year microdata.

IV. CONCLUSION

The findings of this report document a growing disparity in wage growth between high-wage and low-wage workers in New York City, a stark contrast to the national trend of wage compression. While the national labor market and minimum wage policies have supported significant wage growth for low-wage workers, New York City's policies have lagged, resulting in wage stagnation at the lower end of the spectrum. High-wage earners in sectors such as finance and technology have seen substantial gains, but low- and middle-wage workers, particularly those in retail and hospitality, continue to struggle with real wage declines or sluggish income growth.

The evidence presented here reveals that while national wage growth for low-wage workers has been the highest in recent years, New York City's workers at the bottom of the wage distribution have not kept pace. This outcome is partly attributed to the stagnation of state minimum wage policies, which have failed to keep up with inflation, leaving many low-wage earners in a more vulnerable economic position. Without targeted interventions, such as further adjusting the state minimum wage to reflect the cost of living in New York City and implementing policies that better support lower-wage industries, the wage inequality gap will likely continue to widen.

Overall, this report highlights the critical role of state policies and labor market conditions in shaping wage growth trends. For New York City to reverse the current trend of wage divergence, policymakers must prioritize minimum wage adjustments and consider long-term strategies that promote more equitable wage growth.

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APPENDIX

Table 1

Average Hourly wage per quintile in the U.S and NYC, 1996-2023

Wage category	1996	2013	2019	2023	Area
Low (1st - 20th percentile)	\$9.97	\$11.19	\$12.93	\$13.71	NYC
Lower middle (21st - 40th percentile)	\$15.32	\$16.33	\$18.57	\$19.29	NYC
Middle (41st-60th percentile)	\$21.95	\$23.34	\$25.29	\$26.66	NYC
Upper middle (61st - 80th percentile)	\$31.54	\$35.35	\$37.74	\$40.21	NYC
High (81st - 99th percentile)	\$59.73	\$67.96	\$83.25	\$98.42	NYC
Low (1st - 20th percentile)	\$9.80	\$10.84	\$12.03	\$13.09	National
Lower middle (21st - 40th percentile)	\$14.56	\$15.54	\$17.43	\$18.27	National
Middle (41st-60th percentile)	\$20.15	\$21.90	\$23.47	\$24.17	National
Upper middle (61st - 80th percentile)	\$28.48	\$31.70	\$34.00	\$34.70	National
High (81st - 99th percentile)	\$49.80	\$62.69	\$71.55	\$74.61	National

Source: CNYCA analysis of Current Population Survey Merged Outgoing Rotation Group data

Table 2

QCEW industry classification and average real wage

Industry	2019	2023	% Change (2019-2023)
NAICS 6216: Home Health Care Services	\$34,977	\$31,873	-8.9%
NAICS 445: Food and Beverage Stores	\$36,878	\$35,123	-4.8%
NAICS 624: Social Assistance	\$40,710	\$39,456	-3.1%
NAICS 722: Food Services and Drinking Places	\$40,295	\$40,617	0.8%
NAICS 713: Amusement, Gambling & Recreation Ind	\$43,801	\$40,784	-6.9%
NAICS 5616: Investigation and Security Services	\$45,693	\$44,546	-2.5%
NAICS 311: Food Manufacturing	\$49,678	\$46,858	-5.7%
NAICS 492: Couriers and Messengers	\$56,701	\$53,609	-5.5%
NAICS 5617: Services to Buildings and Dwellings	\$57,496	\$53,579	-6.8%
NAICS 623: Nursing and Residential Care Facilities	\$54,091	\$56,456	4.4%
Priv educ ex elem & second & colleges	\$55,472	\$58,681	5.8%
NAICS 493: Warehousing and Storage	\$44,334	\$63,538	43.3%
Retail excl Food & Bev	\$61,512	\$63,642	3.5%
NAICS 81: Other Services, Ex. Public Admin	\$64,064	\$64,765	1.1%
Total low-wage	\$47,909	\$46,573	-2.8%

Source: CNYCA analysis of Quarterly Census of Employment and Wages data

QCEW industry classification and average real wage

Industry	2019	2023	% Change (2019-2023)
NAICS 6111: Elementary and Secondary Schools	\$71,287	\$69,337	-2.7%
NAICS 712: Museums, Parks and Historical Sites	\$73,874	\$75,239	1.8%
NAICS 721: Accommodation	\$82,506	\$79,957	-3.1%
Transp. Excl couriers & warehousing	\$76,333	\$81,617	6.9%
Mfg excl Food	\$85,901	\$84,261	-1.9%
Admin excl bldg srvc & security	\$104,111	\$91,312	-12.3%
NAICS 23: Construction	\$100,325	\$93,235	-7.1%
Total Government	\$97,473	\$96,177	-1.3%
NAICS 53: Real Estate and Rental and Leasing	\$102,768	\$97,435	-5.2%
Health care excl HHC & nursing	\$98,092	\$99,527	1.5%
NAICS 11: Agriculture, Forestry, Fishing & Hunting	\$96,796	\$104,404	7.9%
NAICS 21: Mining	\$103,789	\$99,222	-4.4%
Total middle-wage	\$95,720	\$93,439	-2.4%

Source: CNYCA analysis of Quarterly Census of Employment and Wages data

QCEW industry and classification and average real wage

Industry	2019	2023	% Change (2019-2023)
NAICS 42: Wholesale Trade	\$117,171	\$120,173	2.6%
NAICS 6113: Colleges and Universities	\$115,350	\$124,213	7.7%
NAICS 711: Performing Arts and Spectator Sports	\$137,049	\$141,059	2.9%
NAICS 22: Utilities	\$148,902	\$148,989	0.1%
NAICS 54: Professional and Technical Services	\$169,588	\$171,810	1.3%
NAICS 51: Information	\$185,541	\$193,720	4.4%
NAICS 55: Management of Companies and Enterprises	\$228,249	\$221,817	-2.8%
NAICS 52: Finance and Insurance	\$364,760	\$361,705	-0.8%
Total high-wage	\$216,039	\$217,886	0.9%

Source: CNYCA analysis of Quarterly Census of Employment and Wages data

WAGE COMPRESSION OR WAGE DIVERGENCE?

**Real Wage Growth Comparison between
New York City and the U.S., 2019-2023**



Center for
New York City
Affairs

**Mohamed Obaidy
James Parrott
Apurva Mehrotra**

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