

# Why the Average Earnings Reported in the Economic Report of the President Changed.

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### Abstract

Some economists use the Economic Report of the President as a source for determining the average hourly earnings paid in the private nonagricultural sector of the economy. The Economic Reports of the President have a table that presents average hourly earnings from 1964 to present. Each years average hourly earnings reported in 2004 are higher than for the years reported in the 2003 Economic Report. This paper attempts to explain why.



## Why the Average Hourly Earnings Reported In The Economic Report of the President Changed.

One source of economic data used by forensic economists is the Economic Report of the President, EROP. Table 47 in the 2003 and 2004 Reports present “Hours and earnings in private non-agricultural industries.” The table contains average weekly hours, average hourly earnings and average weekly earnings. The table gives the source of the data as the Bureau of Labor Statistics.

The data presented in the EROP is supported by The Statistical Abstracts of the United States, 2002 and 2003. “Average Hourly Earnings by Private Industry Group” is presented in Table 608 in the Statistical Abstracts for 2002 and in Table 635 in the Statistical Abstracts for 2003. The source for the Statistical Abstracts data is US Bureau of Labor Statistics, Employment and Earnings, monthly, June 2003 issue; and the Current Employment Statistics program internet site

<http://www.bis.gov/ces/home.htm>.

The data presented in Table 1 is from the Economic Report of the President. The table presents average hourly wage rates in the private nonagricultural sector.

Year	<u>Data from 2003 Report</u>		<u>Data form 2004 Report</u>	
	<u>Hourly Wage</u>	<u>Percentage Change</u>	<u>Hourly Wage</u>	<u>Percentage Change</u>
1964	\$2.36		\$2.53	
1965	2.46	4.24	2.63	3.95
1966	2.56	4.07	2.73	3.80
1967	2.68	4.69	2.85	4.40
1968	2.85	6.34	3.02	5.96
1969	3.04	6.67	3.22	6.62
1970	3.23	6.25	3.40	5.59
1971	3.45	6.81	3.63	6.76
1972	3.7	7.25	3.90	7.44
1973	3.94	6.49	4.14	6.15
1974	4.24	7.61	4.43	7.00
1975	4.53	6.84	4.73	6.77

1976	4.86	7.28	5.06	6.98
1977	5.25	8.02	5.44	7.51
1978	5.69	8.38	5.87	7.90
1979	6.16	8.26	6.33	7.84
1980	6.66	8.12	6.84	8.06
1981	7.25	8.86	7.43	8.63
1982	7.68	5.93	7.86	5.79
1983	8.02	4.43	8.19	4.20
1984	8.32	3.74	8.48	3.54
1985	8.57	3.00	8.73	2.95
1986	8.76	2.22	8.92	2.18
1987	8.98	2.51	9.13	2.35
1988	9.28	3.34	9.43	3.29
1989	9.66	4.09	9.80	3.92
1990	10.01	3.62	10.19	3.98
1991	10.32	3.10	10.50	3.04
1992	10.57	2.42	10.76	2.48
1993	10.83	2.46	11.03	2.51
1994	11.12	2.68	11.32	2.63
1995	11.43	2.79	11.64	2.83
1996	11.82	3.41	12.03	3.35
1997	12.28	3.89	12.49	3.82
1998	12.78	4.07	13.00	4.08
1999	13.24	3.60	13.47	3.62
2000	13.76	3.93	14.00	3.93
2001	14.31	4.00	14.53	3.79
2002	14.77	3.21	14.95	2.89
2003			15.38	2.88

The average rate of change in the hourly rate based on the 2002 data is 4.96% while the average rate of change in the hourly rate based on the 2003 data is 4.75%. The average rate of inflation, as measured by the Consumer Price Index, from 1964 through 2002 was 4.69% and through 2003 was 4.63%.

By comparing the average growth rate in wages to the change in the Consumer Price Index a case can be made that workers have experienced real wage increases. The real growth using the 2002 data is .27% and using the 2003 data the real growth is .12%, less than half of what the previous years data reported.



The reason for the change in the reported average hourly rates is the method in which the Current Employment Statistics are now gathered. The data released prior to June 6, 2003 was based on data gathered from firms identified through the Standard Industrial Classification Code. (Morisi)

The Standard Industrial Classification Code - A code representing a category within the Standard Industrial Classification System administered by the Statistical Policy Division of the U.S. Office of Management and Budget. The system was established [in 1987] to classify all industries in the U.S. economy. A two-digit code designates each major industry group, which is coupled with a second two-digit code representing subcategories.<sup>1</sup>

The data released after June 6, 2003 was based on information gathered under the North American Industry Classification System (NAICS). The changes

Developed in cooperation with Canada and Mexico, the North American Industry Classification System (NAICS) represents one of the most profound changes for statistical programs focusing on emerging economic activities. NAICS, developed using a production-oriented conceptual framework, groups establishments into industries based on the activity in which they are primarily engaged. Establishments using similar raw material inputs, similar capital equipment, and similar labor are classified in the same industry. In other words, establishments that do similar things in similar ways are classified together.<sup>2</sup>

Numerous changes were made with the switch to NAICS, industries were redefined and weights assigned to industries were changed. Sampling changed from quota sampling to probability sampling. Another change was the introduction of “concurrent seasonal adjustment, in which seasonal factors are calculated each month to produce seasonally adjusted data series.” (Morisi) The historic wage rates were extrapolated from the new data resulting in the changes in previously reported hourly rates.

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<sup>1</sup> The 'Lectric Law Library's Lexicon on Standard Industrial Classification Code, retrieved March 11, 2004 from <http://www.lectlaw.com/def2/s106.htm>

<sup>2</sup> U.S. Department of Labor, Occupational Safety & Health Administration, retrieved March 11, 2004, from <http://www.osha-bov/oshstat/naics-manual.html>

This new system, the North American Industry Classification System, allows comparison of data between the United States, Canada and Mexico. But the data reported applies only to the United States and not to the other two countries.

## Conclusion

What does all this mean? As Morisi states, “All the changes will provide more accurate and relevant statistics on employment, hours and earnings of the Nation’s workers.”

## References

Morisi, Teresa, June 2003. Recent Changes in the National Current Employment Statistics survey. *Monthly Labor Review*, 3-13