The Employment Cost Index (ECI) Rose by 0.9% (Not Annualized) in the Second Quarter and Slowed to 4.1% from a Year Ago, Still Well Above the 3.2% Rise in the CPI

- The ECI rose by 0.9% in the second quarter, matching the rise in the fourth quarter of 2023 for the slowest rises since the second quarter of 2021.

- The ECI rise from a year ago edged down to 4.1%, the slowest since the year ending in the fourth quarter of 2021.

- This is clear evidence that a better balance between demand and supply in the labor market is slowing workers’ compensation, but the 4.1% rise in the past year is still well ahead of the 3.2% rise in consumer prices during the same period.

The Employment Cost index (ECI) is the most accurate measure of workers’ compensation (wages and fringe benefits), as noted by Fed Chairman Powell and most economists. It is released quarterly, while the Average Hourly Earnings index (AHE) is released monthly as part of the employment report. The AHE is a good measure of workers’ wages but does not include fringe benefits. Over longer periods of time, the ECI and AHE show very similar changes, but the ECI is the preferred measure over shorter periods of time, such as quarterly or yearly changes.

The ECI rose by 0.9% (not annualized) in the second quarter, the same as in the fourth quarter of 2023 and the slowest since the second quarter of 2021. Private industry workers’ compensation rose by 0.9% and state and local (S&L) government workers’ compensation rose by 1.2%. The rise for private industry workers slowed to 3.9% from a year ago. It peaked at 5.5% in the year ending June 2022 when the demand for workers far outstripped the supply of workers. The rise for S&L workers edged up to 4.9% in the year ending in the second quarter of 2024, matching its high from a year earlier. The strong demand for S&L workers is putting upward pressure on compensation gains but the level of S&L workers’ average compensation is well below the average for private industry workers.

Looking at private industry workers, goods producing workers’ wages slowed to 0.5% (not annualized) in the second quarter and are up 3.5% from a year ago. Services producing workers’ wages slowed to 0.9% (not annualized) in the second quarter and are up 3.9% from a year ago. Within services industries, workers’ compensation in the leisure and hospitality industry led the way at up 1.4% in the second quarter but up a slower 3.6% from a year ago.
This slowdown in private industry workers’ compensation to 3.9% is a welcome development given that it is still well above inflation in the past year. Chairman Powell and others have stated that workers’ compensation gains near 3.5% is consistent with the FOMC’s 2% inflation target given worker productivity gains near 1.5%. This movement in that direction will reinforce the FOMC’s decision to lower the Fed funds rate by 25 bps at their September 18 meeting after clearly signaling that a funds rate cut is coming in the Statement from their meeting ending today and Powell’s comments at his presser this afternoon.

PNC Economics
economics@pnc.com

Visit pnc.com/economicreports for more information from PNC Economics.