July 31, 2025

Employment Cost Index Growth Unchanged in Q2

- **The Employment Costs Index (ECI) increased 0.9% in the second quarter of 2025, in line with our forecast.**
- **Wages and salaries rose 1.0% while benefit costs increased a more moderate 0.7%.**
- **On a year ago basis, the ECI is up 3.6%, unchanged from the first quarter.**
- **Total compensation costs are expected to moderate amid slower job growth and a rising unemployment rate.**

The Employment Cost Index (ECI) – which measures the change in the hourly labor cost to employers over time using a fixed basket of labor absent the impacts of workers moving between occupations and industries – increased by 0.9% in the second quarter of 2025, in line with our expectation, as compensation growth held steady for the third consecutive quarter. Consequently, year-over-year growth was unchanged at 3.6%, matching the prior quarter's growth and the lowest reading since the third quarter of 2021. The quarter-on-quarter increase was broad-based with wages and salaries rising 1.0% and benefits climbing 0.7% - the slowest pace of growth since the second quarter of 2021.On an annual basis, wages and salaries and benefits are up 3.6%.

Total compensation for private workers accelerated slightly to 1.0%, pushing the year ago growth rate up to 3.5% from 3.4%. The quarter-on-quarter acceleration in total compensation was entirely due to higher wage and salary growth (1.0% versus 0.8% in the first quarter); benefit cost growth for private workers slowed sharply to 0.7% from 1.2% in the first quarter. From a year earlier, wages and salaries for private workers are up 3.5%, while benefits costs are up a relatively more modest 3.4%.

Total compensation costs are expected to moderate as job growth continues to slow and the unemployment rate rises. As a result, PNC's current forecast is for one 25 basis point cut in the fed funds rate at the last meeting of the year in December. PNC is then calling for two additional 25 basis point cuts in the fed funds rate at each of the FOMC's first two meetings of 2026, lowering the fed funds rate to a range of 3.50% to 3.75% by the spring of 2026.

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