

U.S. Data Review

- Employment cost index: moderation in compensation costs in Q4

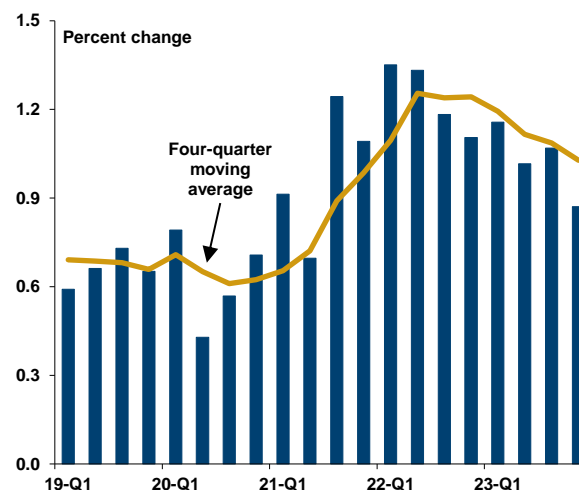
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Employment Cost Index

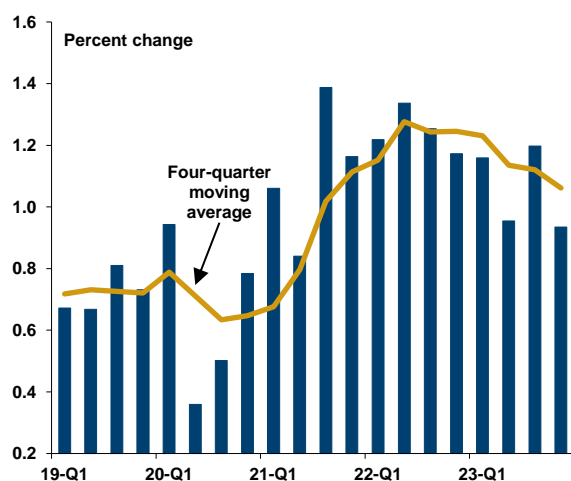
- Total compensation costs increased 0.9 percent (not annualized) in the fourth quarter of 2023, a bit slower than the consensus expectation of an advance of 1.0 percent. Compensation costs rose 4.2 percent a Q4/Q4 basis, well above the 2.7 percent advance in 2019 (the year preceding the pandemic) but slower than the brisk advance of 5.1 percent in 2022. The latest results suggest that easing in tight labor market conditions has started to constrain previously rapid compensation growth – a desirable development in the context of the Fed's ongoing effort to slow inflation.
- Wages, one of two key components of the ECI, increased 0.9 percent in Q4 (versus 1.2 percent in Q3). On a Q4/Q4 basis, wage growth moderated to 4.3 percent from 5.1 percent in 2022.
- Benefit costs, the other key component, rose 0.7 percent (versus 0.9 percent in Q3), the slowest increase since a pickup of 0.4 percent in the second quarter of 2021. Benefit costs were up 3.8 percent Q4/Q4 in 2023 versus 4.9 percent in the preceding year.
- Although the employment cost index is lagged versus other data on employee compensation – average hourly earnings for January available with this Friday's employment report, for example – this metric is watched closely by Fed officials and is viewed among the most reliable measures of labor costs. The employment cost index better tracks changes in labor costs for the same jobs over time; it is not influenced by shifts in the composition of employment between high and low-wage industries. Thus, while only available through the fourth quarter of last year, it still provides useful insight on labor market tightness and compensation growth.

Employment Cost Index: Total Compensation



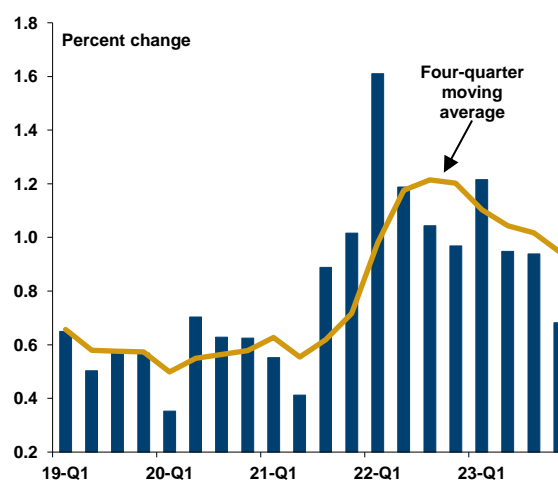
Source: Bureau of Labor Statistics via Haver Analytics

Employment Cost Index: Wages



Source: Bureau of Labor Statistics via Haver Analytics

Employment Cost Index: Benefits



Source: Bureau of Labor Statistics via Haver Analytics

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