Cornell University
ILR School
Institute for Compensation Studies

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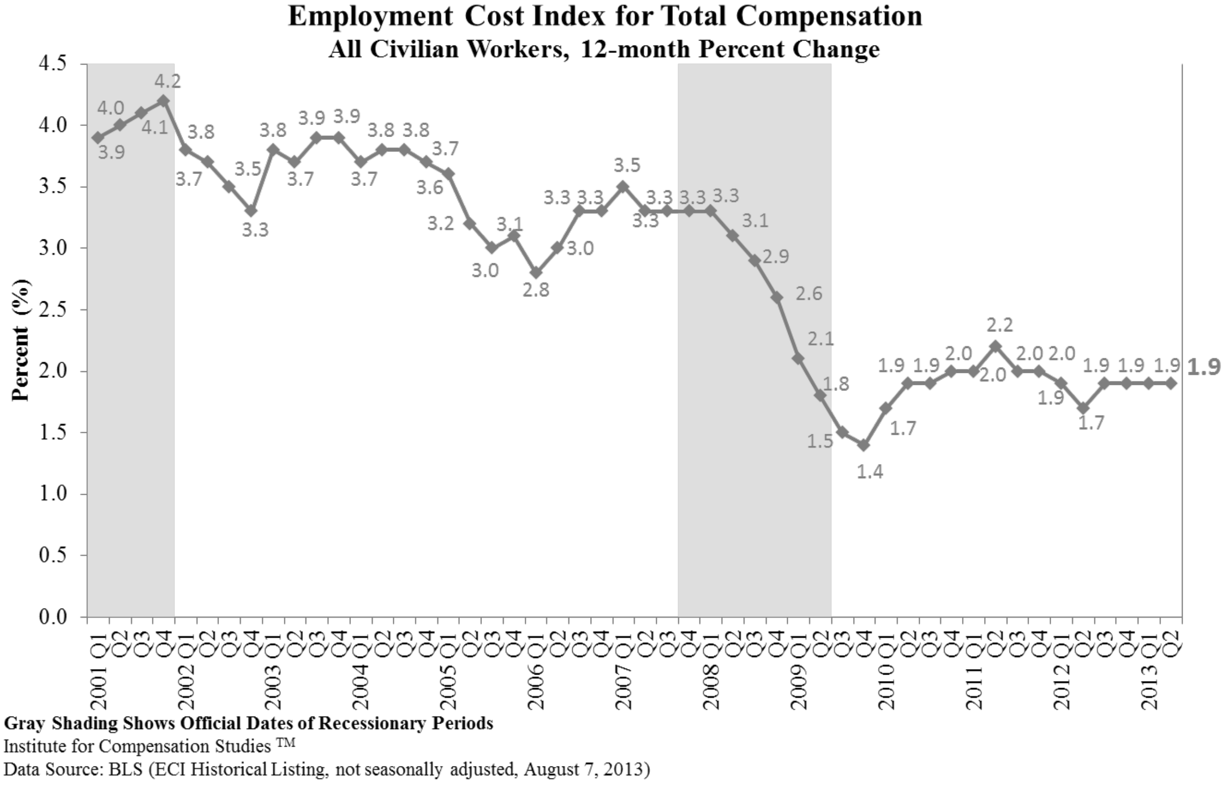
ICS Commentary - U.S. Employment Cost Index, Q2 2013

- Total compensation ECI remains at 1.9%.
- Employment Cost Index aligns with July's BLS Employment Situation report, both signal steady recovery in the U.S. labor market, with emphasis on lower-paying jobs.
- Leisure and hospitality continue softening trend in wage and salary ECI.

Civilian workers costing employers 1.9 percent more than a year ago

The cost of U.S. employees' wages, salaries and benefits rose by 1.9 percent over the previous 12 months, according to the latest Employment Cost Index (ECI) released July 31st by the U.S. Bureau of Labor Statistics (Chart 1).[1] This is the fourth quarter in a row where the 12-month ECI held at 1.9 percent. In fact, since the start of 2009, the annual rate of inflation for total compensation has remained between 1.4 percent and 2.2 percent. For the five and a half years between the end of the 2001 recession and the start of the Great Recession, the 12-month ECI never dropped below 2.8 percent (Q1, 2006) and registered 3.5 percent or higher 13 of 23 quarters.

Chart 1



Gray Shading Shows Official Dates of Recessionary Periods
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Data Source: BLS (ECI Historical Listing, not seasonally adjusted, August 7, 2013)

[1] Seasonally adjusted, compensation costs increased 0.5 percent for the 3-month period ending June 2013. This is the same 3-month increase as reported in March 2013.

The lowered total compensation ECI indicates a longer-term softened labor market (as employers look to minimize costs by employing more part-time workers and replacing human labor with technological innovations), and an overall lower inflation rate. General price inflation is currently 1.8 percent (annual CPI-U).[2]

On average, employer-provided benefits compose roughly 30 percent of the total compensation costs of employees, with wages and salaries composing the remaining 70 percent. This quarter's continued flat-lining of the 12-month total compensation ECI was the result of a slightly increasing inflation rate for wages and salaries being offset by a decreasing inflation rate for benefits.

Table 1

Employment Cost Index 12-month, not seasonally adjusted **All Civilian Workers** (Percent change over preceding 12 months)			
	Total Compensation	**Wages and Salaries**	**Benefits**
2012 Q3	1.9	1.7	2.4
2012 Q4	1.9	1.7	2.4
2013 Q1	1.9	1.6	2.4
2013 Q2	1.9	1.7	2.2

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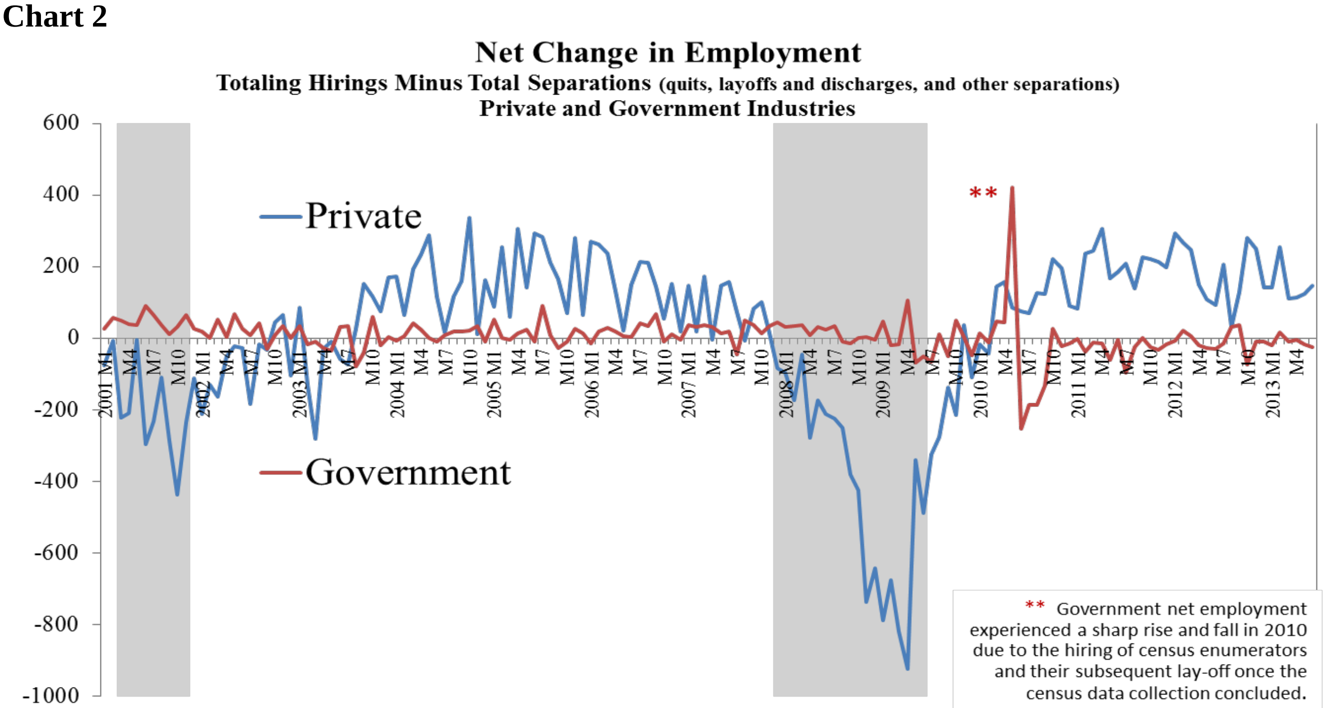
Data Source: BLS (ECI Historical Listing, August 13, 2013)

Patterns in employer costs differ for private, government sectors

While monthly net changes in private sector employment have been positive since 2010, hiring in state and local governments have yet to turn consistently positive (Chart 2).

Chart 2



Gray Shading Shows Official Dates of Recessionary Periods

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Data Source: BLS (Job Openings and Labor Turnover, not seasonally adjusted, August 7, 2013)

[2] BLS News Release "Consumer Price Index – June 2013." http://www.bls.gov/news.release/pdf/cpi.pdf.

Despite the relatively stronger private sector hiring picture, private sector employers saw total costs for employee compensation rise only slightly faster over the previous 12 months than did state and local governments, 1.9 versus 1.8 percent, respectively. The dramatic difference is in the longer patterns of growth in wage and salary costs versus benefit costs in the two sectors (Charts 3 and 4).

Chart 3

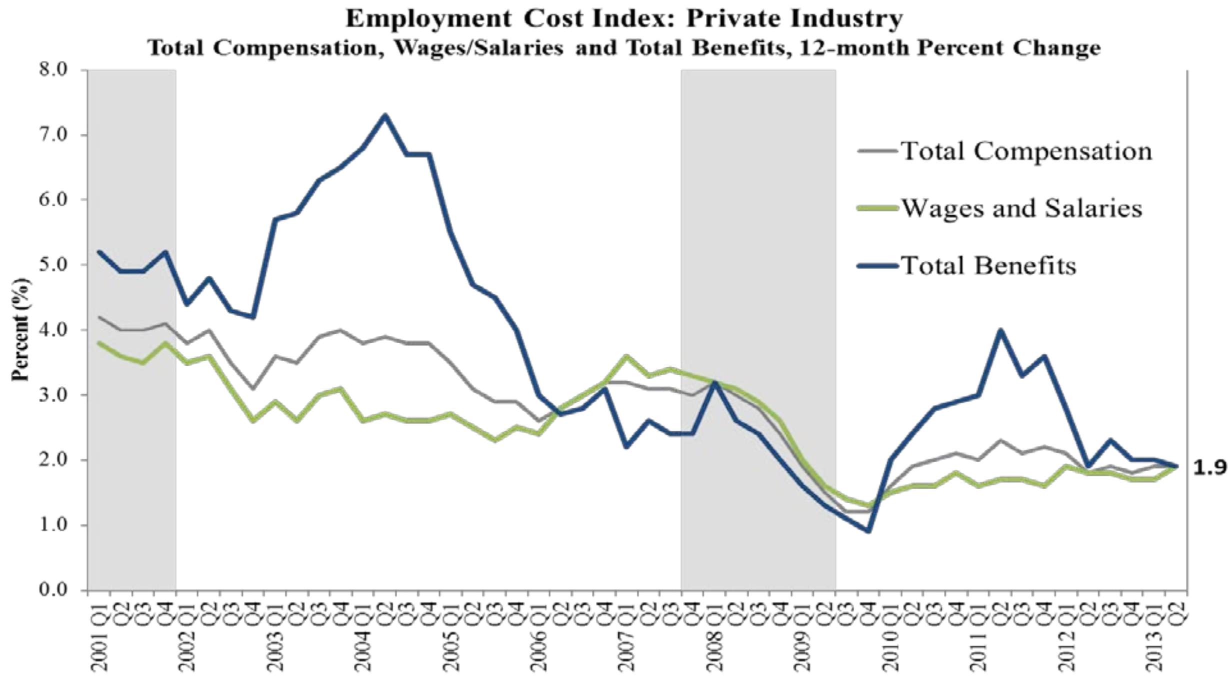

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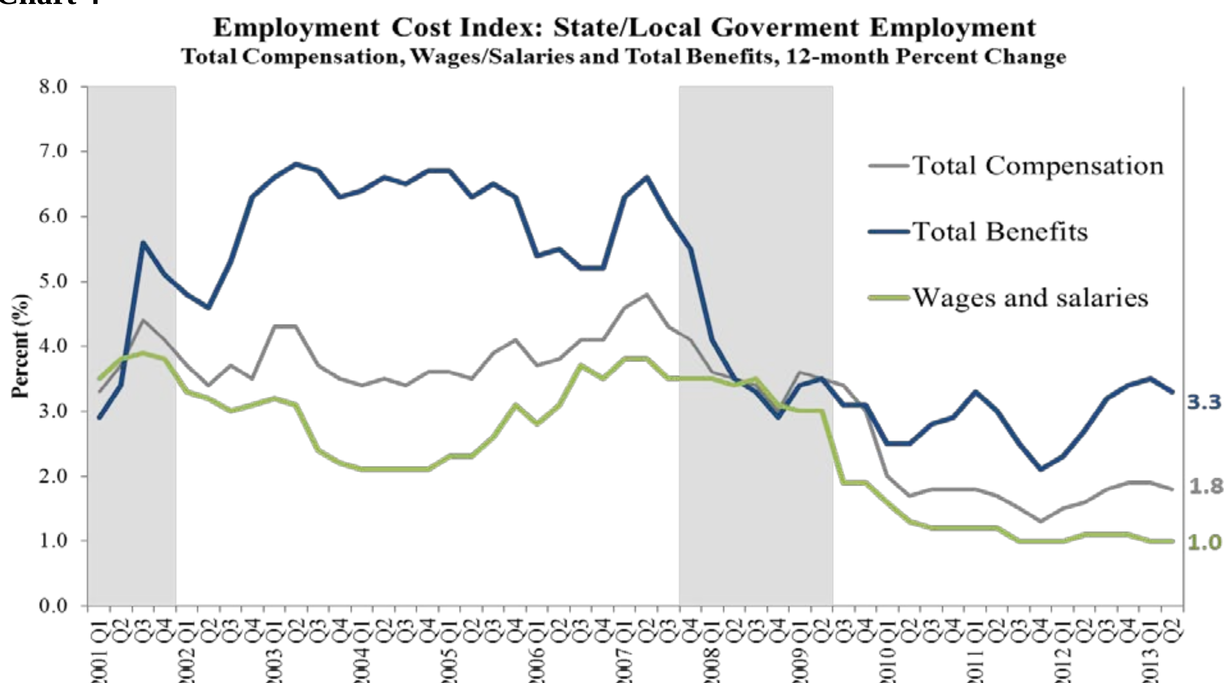
Chart 4



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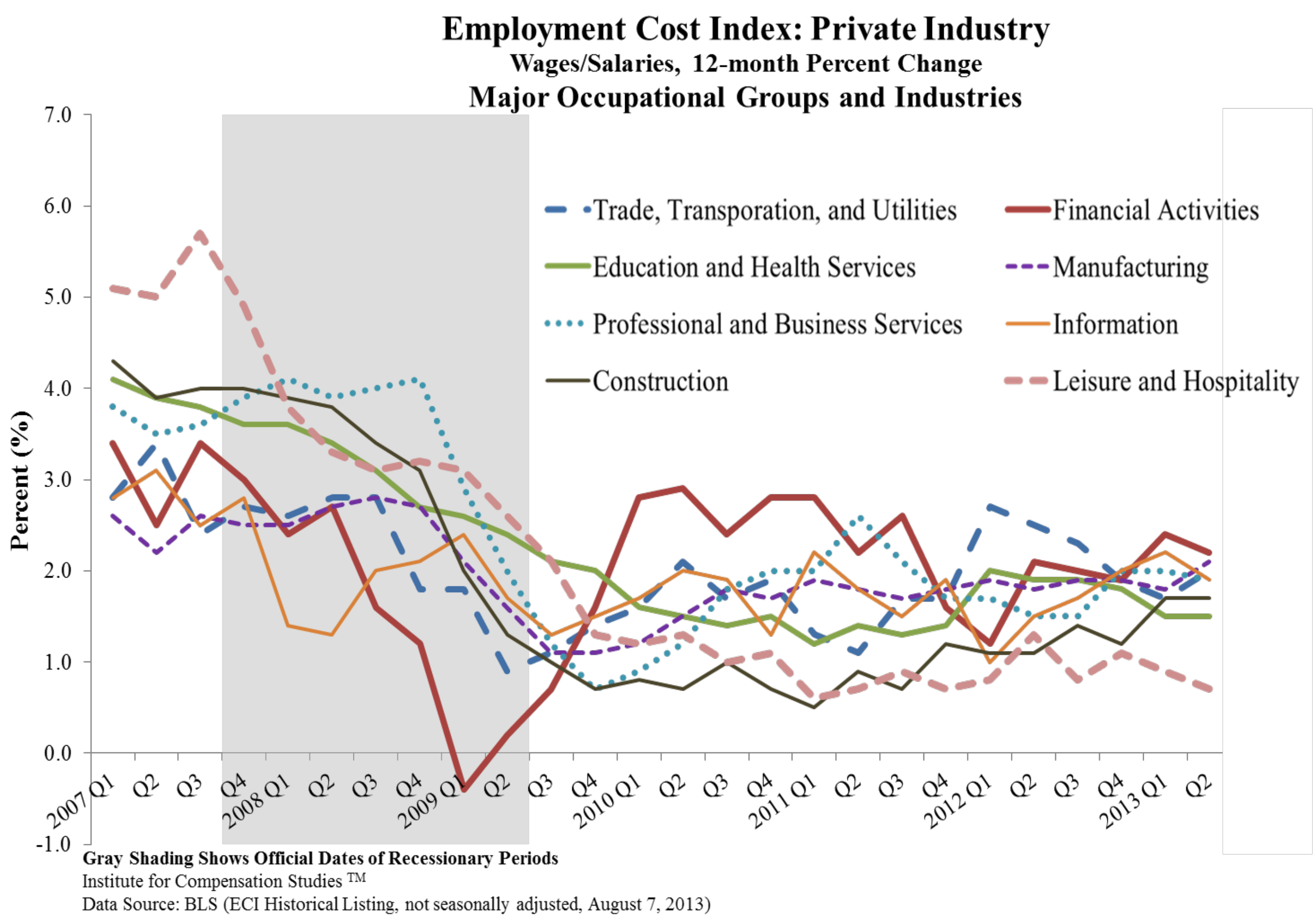
From the start of the recession in Q4 2007 until the present, there were only four quarters (Q2 2011 – Q1 2012) when the 12-month ECI for employee *benefits* was greater in the private sector than in the public sector. Since Q2 2010, however, the private sector12-month ECI for *wages and salaries* has consistently outstripped that for state and local governments.

Annual inflation of wages and salaries continues to be lowest in the leisure and hospitality

The employer cost index for wages and salaries remains below 1 percent in the Leisure and Hospitality sector (Chart 5). According to the latest ECI report, employers' costs for wages and salaries are just 0.7 of a percent higher than 12 months ago. This annual growth rate is half that of the next lowest industry, Education and Health Services, where wages and salaries 1.5 percent higher than in July 2012. In Leisure and Hospitality, wages and salaries make up around 80% of total compensation, higher than the economy-wide average, making the noticeably lower wage and salary ECI is particularly noteworthy.

Chart 5



While not as far above the pack as Leisure and Hospitality is below, the Financial Activities sector does stand out for its upward trend in wage and salary growth rates since 2012 and recording its second quarter of annual wage and salary growth exceeding that in other industries.

About the Employment Cost Index (ECI) Series

The Office of Compensation Levels and Trends of the U.S. Bureau of Labor Statistics (BLS) produces the Employment Cost Index (ECI) Series. It is designated as a Principal Federal Economic Indicator by the Office of Management and Budget. It is the only measure of labor costs that treats wages and salaries and total compensation consistently and that provides consistent subseries by occupation and industry. The ECI is used by the Federal Reserve Board to monitor the effects of fiscal and monetary policies and to formulate those policies. It enables analysts and policymakers to assess the effects of labor cost changes on the economy, both in the aggregate and by sectors. The ECI is particularly important in studies of the relationships among prices, productivity, labor costs, and employment. The ECI also is used to determine increases in Medicare payments to hospitals and doctors and as a labor cost escalator in long-term contracts.

Data for the June 2013 reference period were collected from a probability sample of approximately 45,700 occupational observations selected from a sample of about 9,200 establishments in private industry and approximately 9,100 occupations from a sample of about 1,400 establishments in state and local governments.

The Institute for Compensation Studies™ (ICS) at Cornell University's ILR School is an interdisciplinary center that analyzes, teaches, and communicates about rewards from work, and how rewards influence individuals, companies, industries and economies around the world. For ICS, compensation is broadly defined to include monetary and non-monetary considerations, and extends across the span of organizational control – from boards of directors and executives to entry-level and contract workers. ICS research and leading-edge insight address compensation issues faced both by employers and employees in today's dynamic global marketplace.

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