Cornell University
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Institute for Compensation Studies

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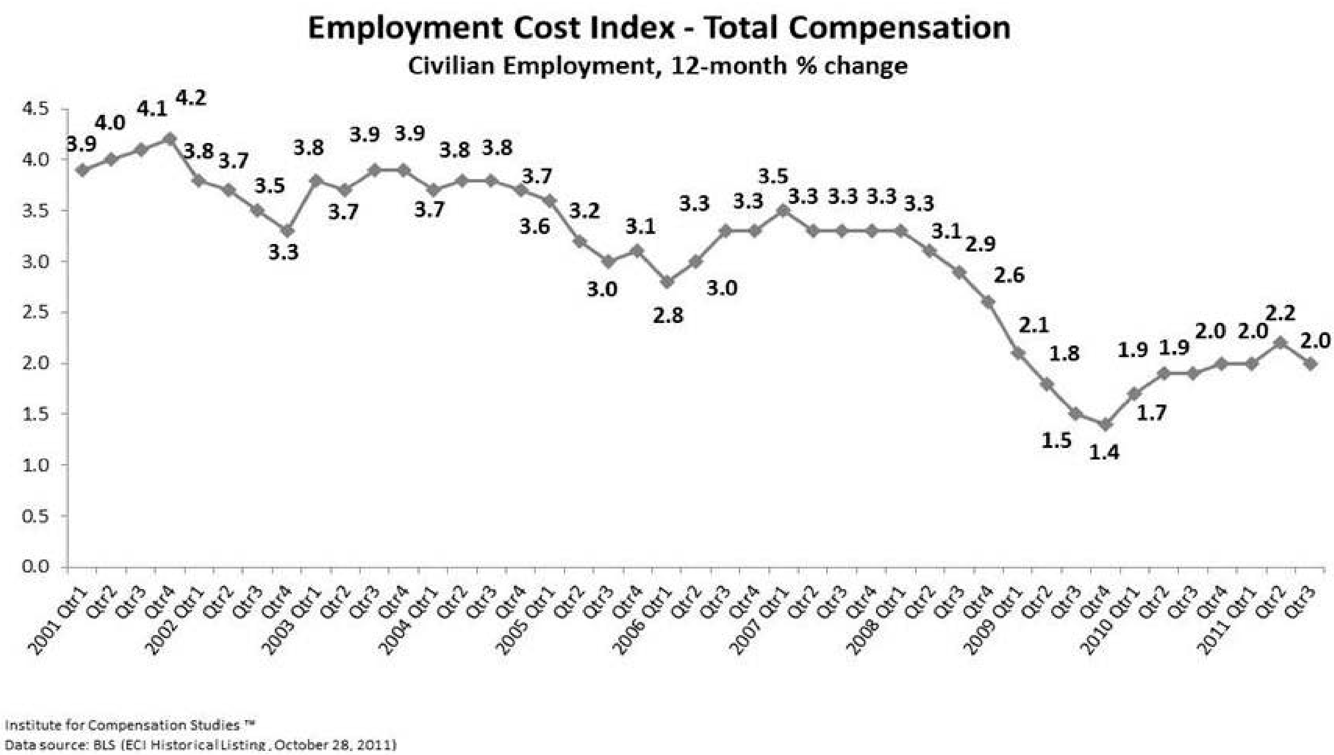
ICS Commentary - U.S. Employment Cost Index, Q3 2011

- Total U.S. civilian 12-month employment cost increases fell back for the first time since Q4 2009.
- Employer spending on wages, salaries, and benefits across the civilian U.S. labor force for the 12 months ending September 2011 rose 2 percent, a slower increase than last quarter (2.2 percent for the 12 months ending June 2011).
- Depressed labor market conditions for the government sector (state and local) continue to contract public sector employment cost increases.

12-month ECI falls back to first quarter level

According to the Employment Cost Index released Friday October 28, 2011, by the U.S. Bureau of Labor Statistics, compensation costs to civilian employers are 2 percent higher than they were a year ago.[1] This increase in employer spending on wages, salaries, and benefits across the civilian U.S. labor force, however, is 0.2 percentage points lower than last quarter's 12-month increase. This is the first quarter since the trough in Q4 2009 that the 12-month Employment Cost Index has decelerated.



Annual inflation (CPI-U) currently stands at 3.5 percent.[2]

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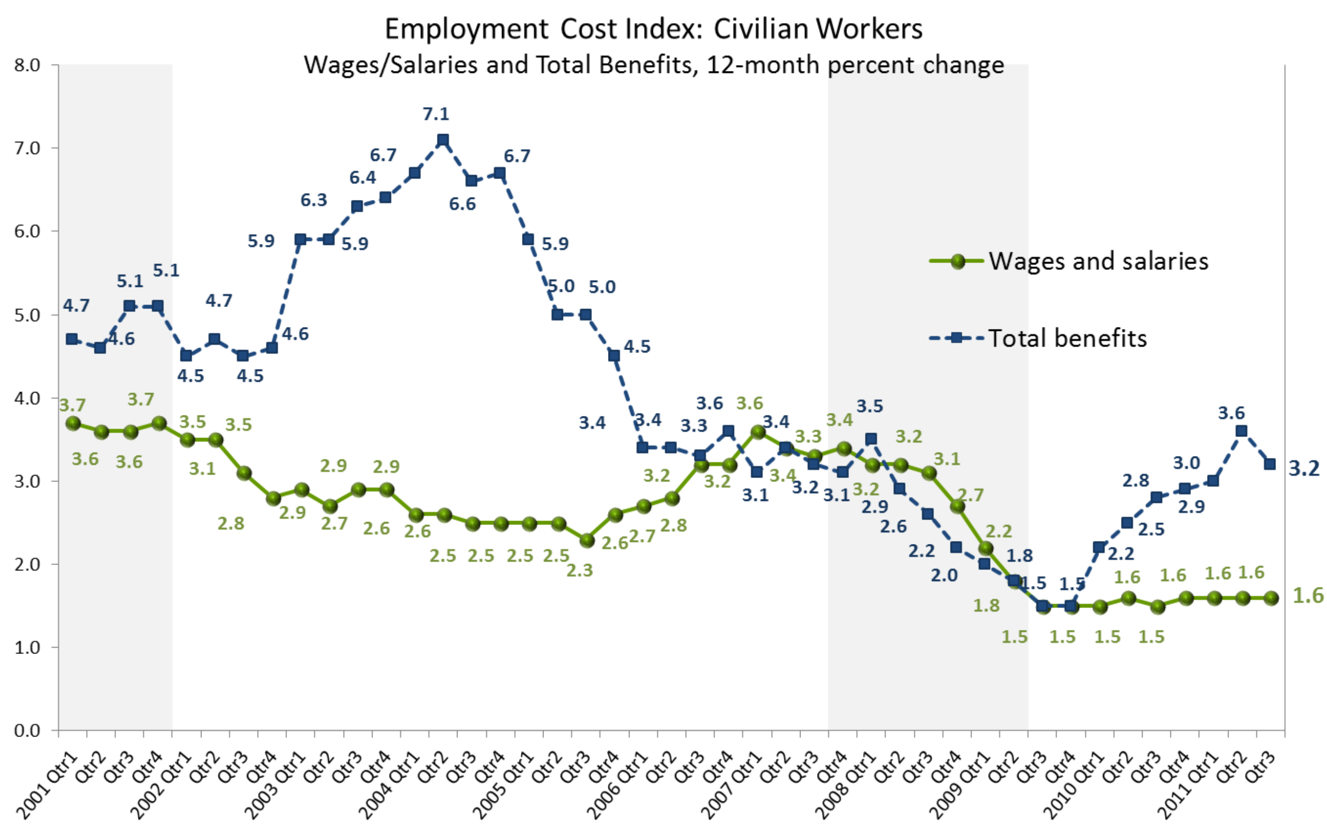
[1] Seasonally adjusted, compensation costs increased 0.3 percent for the 3-month period ending September 2011. This is a deceleration from the previous quarter's 3-month ECI of 0.7 percent for the period ending June 2011.

[2] The Consumer Price Index for All Urban Consumers (all items) index has risen 3.5 percent, for the 12-month period ending October 2011. See Consumer Price Index Summary, November 16, 2011, USDL-11-1644. http://www.bls.gov/news.release/cpi.nr0.htm.

Wage and salary costs vs. benefits

The mild weakening of U.S. employment cost increases for the 12 months ending September 2011 has been driven solely by benefits. The percent change of employers' spending on employee benefits, which rose steeply last quarter, fell back to 3.2 percent, in line with the gentler year-on-year acceleration trend observed since Q4 2009. At its current level, the 12-month increase in benefits cost is nonetheless more than double the rate of increase at the trough in Q3 and Q4 of 2009.



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Data source: BLS (ECI Historical Listing, October 28, 2011)

Increases in civilian wage and salary costs over the past 12 months held constant at 1.6 percent. This continues the essentially flat rate of increase established at the official end of the recession in June 2009. A trend this low and flat is unprecedented since the series began in 1982.

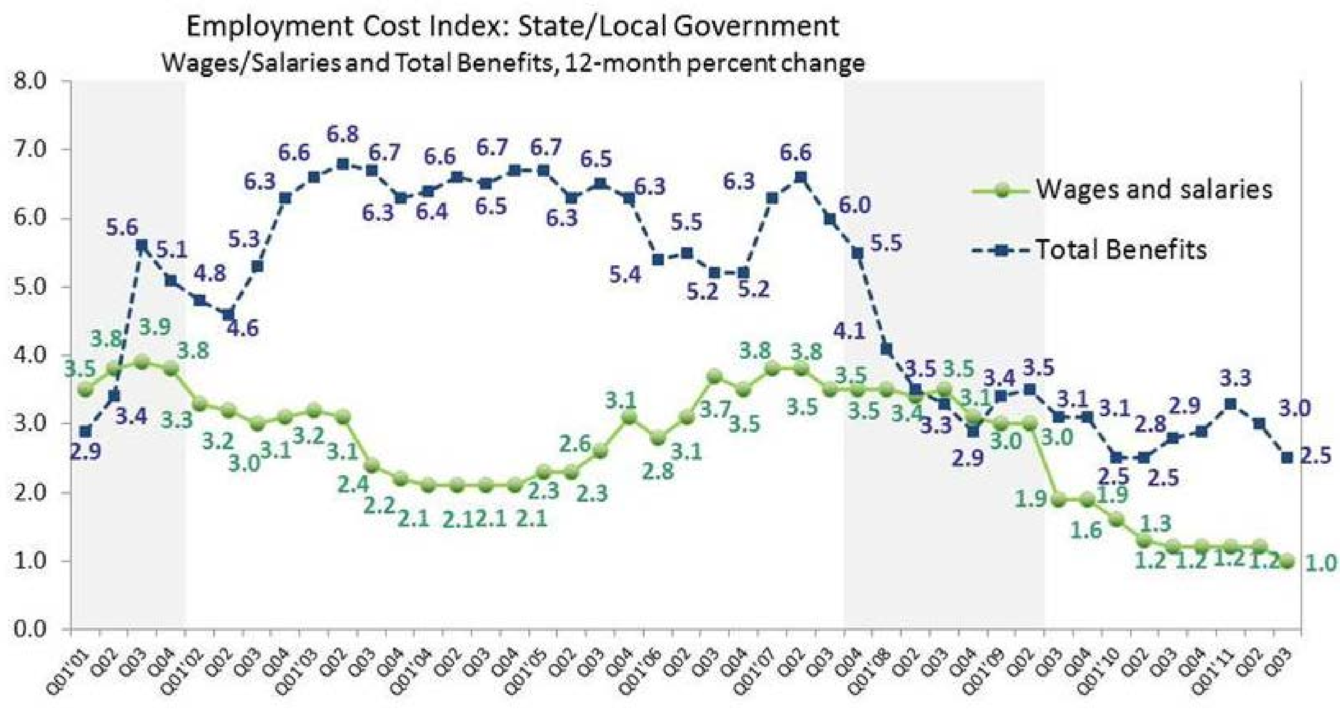
Benefits contribute roughly 30 percent, on average, to the cost that employers pay per employee; the speed at which benefit costs increase is an important contributor to what employees cost their employers.[3] But, because employees are experiencing increasing out of pocket costs for health care

[3] In June 2011, wages and salaries accounted for 69.4 percent of total employee compensation, while benefits accounted for the remaining 30.6 percent. Data for September 2011 is scheduled to be released on Thursday, December 8, 2011, at 10:00 a.m. (EDT). See U.S. Bureau Labor Statistics, News Release, Employer Costs for Employee Compensation news

and soft or declining investment returns on retirement funds, limited salary and wage increases may mislead employees into thinking that their employers are "cutting back" on what they spend per employee.[4] As noted last quarter, these conflicting perceptions of employers and employees may fuel tensions over how fairly returns from the (soft) business recovery are being shared with employees.

Public sector cost increases dip yet again

With inflation at 3.5 percent, salary and wage costs for state and local governments are shrinking in real terms. For government employees (state and local), salary and wage costs rose only 1.0 percent over the 12-month period ending September 2011. This is the lowest year-on-year increase for public sector wage costs over the series (begun in 1982), and the first dip in percent change since the third quarter of 2010. Year-on-year increases in benefit costs dropped for the second quarter in a row to 2.5 percent, the lowest year-on-year increase since the first quarter of 1995.



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Data source: BLS (ECI Historical Listing, October 28, 2011)

Other indicators of labor market conditions in the government sector do not suggest that an upturn is on the horizon either. Quarterly job openings in the government sector continue to average under

release text, USDL-11-1305, September 8, 2011, http://www.bls.gov/news.release/archives/ecec_09082011.pdf, downloaded 11/14/11.

[4] Supplemental pay such as overtime pay or nonproduction bonus pay are both included in the BLS definition of benefit costs, rather than salary and wage costs. These benefit costs do directly contribute to employees' pocketbooks.

400,000.[5] And, since the start of 2010 which includes the Census enumeration blip (most visible in May of that year), there has been a net monthly loss in employment in the government sector in 16 of the past 22 months.[6]

			1-Month Net Change in Government Sector Employment, in thousands									
month	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sept	Oct	Nov	Dec
year												
2010	3	-14	48	48	410	-257	-142	-169	-138	28	-35	-15
2011	-26	-26	-25	-24	-46	-55	-46	32	-33	-24		

Data Source: U.S. Bureau of Labor Statistics. Employment, Hours and Earnings. Series CES0500000001 (1-Month Percent change).

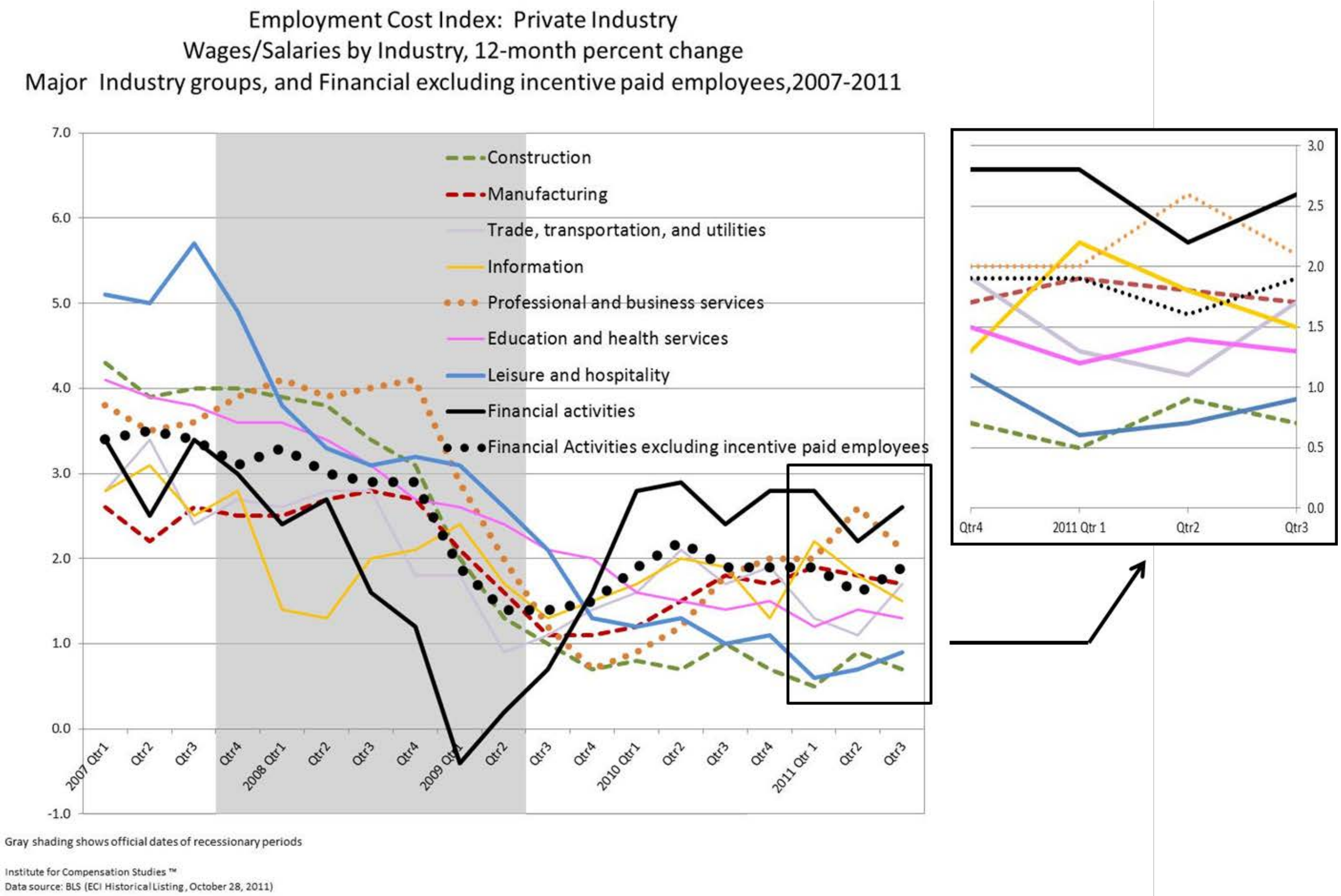
Across the private sector, industries vary

Isolating the 12-month percent change in wages and salaries by industry grouping, reveals some spots of relative strength and weakness in the U.S. labor market. The continuing downward trend in wage and salary cost increases for employees in the Leisure and Hospitality, Construction, and Education and Health Services makes it difficult to conclude the labor market in these industries have turned the recovery corner. In Education and Health Services, year over year increases in wage and salary costs remain below 1.5 percent; and in Leisure and Hospitality, and Construction the 12-month percent change continues to hold below 1.0 percent. In none of these industries is there conclusive evidence that an inflection point has been reached.

In professional and business services, however, the increases in wage and salary costs continue on an upward trajectory, despite a slight fallback this quarter and last. Employee salary and wage costs rose more than 2 percent over the past 12 months for employees in professional and business services (2.1 percent). The 12-month percent change in wages and salaries is greatest for those in the financial industry at 2.6 percent, albeit having plateaued considerably since Q4 2009. The subset of employees in the financial industry that are not incentive-paid employees, however, are experiencing wage and salary cost increases more on par with workers in the industries of Information, Manufacturing, and Trade/Transport/Utilities.

[5] U.S. Bureau of Labor Statistics. Job Openings and Labor Turnover Survey (JOLTS). Series No:JTS90000000JOL, Generated: 11/22/11

[6] U.S. Bureau of Labor Statistics. Employment, Hours and Earnings. Series CES0500000001 (1-Month Percent change). Generated on 11/21/11.



For the 12 months ending September 2011, wage and salary cost increases in the leisure and hospitality and construction industries remain at the bottom of the private sector comparison. These industries continue to suffer in recession-level doldrums. New housing units started remain as levels well below pre-recession levels.[7] And consumers are still holding back on discretionary spending. In the latest holiday spending survey by The Conference Board, over 40 percent of households reported planning to spend less on vacation and travel holiday gifts this year.[8]

[7] U.S. Census Bureau, Manufacturing, Mining, and Construction Statistics, New Residential Construction, http://www.census.gov/briefrm/esbr/www/esbr020.html (last revised 07/21/11)

[8] The Conference Board. "Consumers in a Frugal Mood the Holiday Season" release # 5547, November 9, 2011. Web. Accessed 11/22/11. http://www.conference-board.org/pdf_free/economics/HolidaySpend1111.pdf

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 September 2011 reference period were collected from a probability sample of approximately 61,600 occupational observations selected from a sample of about 12,600 establishments in private industry and approximately 9,300 occupations from a sample of about 1,400 establishments in State and local governments.

See also: U.S. Bureau of Labor Statistics, http://www.bls.gov/opub/hom/pdf/homch8.pdf

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