Cornell University
ILR School
Institute for Compensation Studies

November 25, 2015

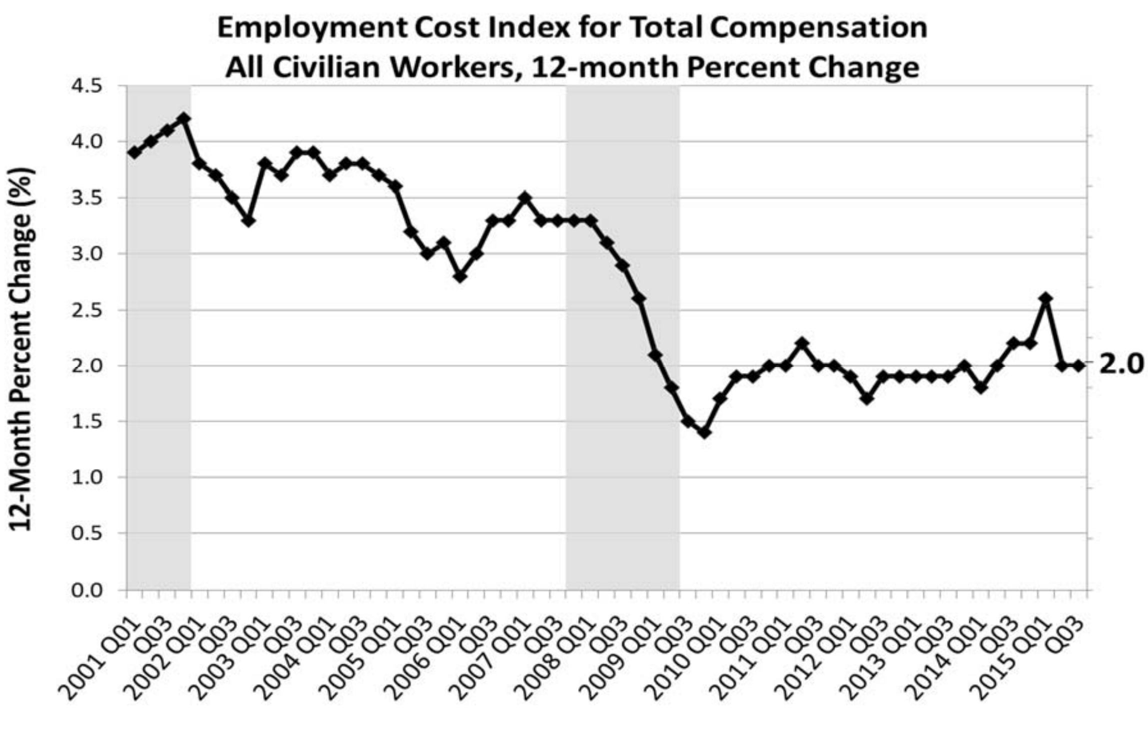
ICS Commentary - U.S. Employment Cost Index, Q3 2015

- *ECI for all civilian workers may be returning to "flat line" pattern with second consecutive quarter at 2.0 percent.*
- *Dramatic declines in energy costs have kept ECI solidly above CPI-U for the past year.*

12-month increase in U.S. workers' compensation costs holds at 2.0 percent

The U.S. Bureau of Labor Statistics' 12-month Employment Cost Index (ECI) held steady at 2.0 percent in September. Released October 30, 2015, the third quarter ECI for all civilian workers appears to be returning to the "flat line" pattern it demonstrated for the majority of the post-Great Recession era (USDL-15-2087). In only four of the past twenty-six quarters has this quarterly year-over-year inflation measure for employee compensation broken above 2.0 percent. (Chart 1).

Chart 1

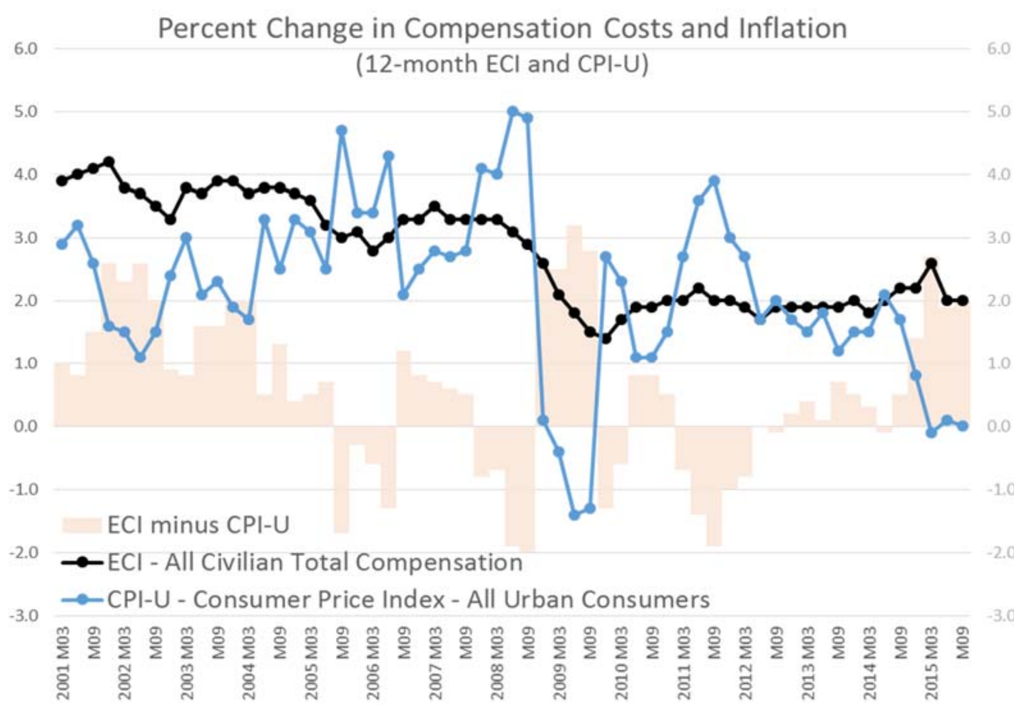


Gray Shading Shows Official Dates of Recessionary Periods
Institute for Compensation Studies™
Data Source: BLS (ECI Historical Listing, not seasonally adjusted, accessed November 24, 2015)

The U.S. Bureau of Labor's Employment Situation reports for October and November of 2015 aligned with the ECI's signal of little change in the labor market. Unemployment in November remained at 5.0 percent, after ticking down just one-tenth of one percent in October from the steady 5.1 percent reported for both August and September (USDL-15-2125 and USDL-15-2292, respectively, http://www.bls.gov/news.release/pdf/empsit.htm). Inflation over the previous 12 months, as measured by the CPI-U, was 0.0% for September due to falling energy costs.

Lower energy costs have insured that growth rates of employer costs of employee compensation, as measured by the ECI, have exceeded consumer inflation for the past year. But despite steady strengthening in the labor market, much of the last decade has seen compensation cost increases below consumer inflation. The shaded areas in Chart 2 illustrate the arithmetic difference between the 12-month ECI and the CPI-U. Sixteen quarters in the past decade have recorded year-on-year consumer inflation greater than the year-on-year total compensation ECI for all workers.

Chart 2



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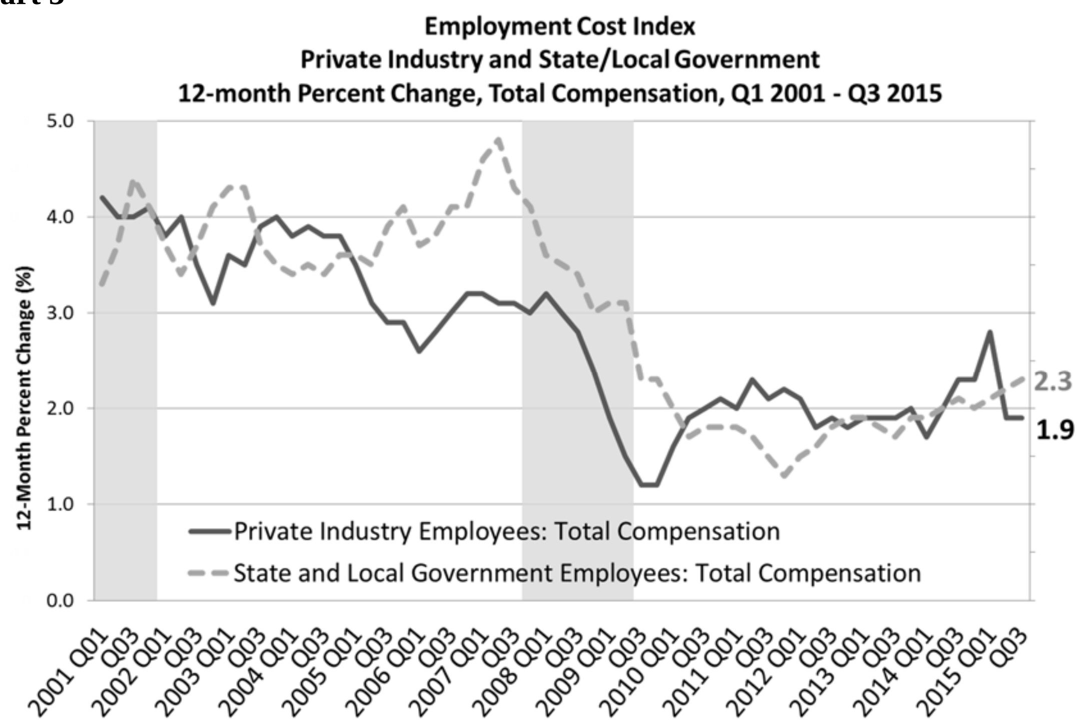
Data Source: BLS (CPI Database, Consumer Price Index – CPI All Urban Consumers Current Series, not seasonally adjusted, http://www.bls.gov/cpi/data.htm, accessed November 24, 2015)

Growth in employment costs differs for private and public sector employers

Separating state and local government from private sector employers reveals that the flat ECI reported for civilian workers in September, was driven by the private sector. State and local government employers faced an acceleration in the growth rate of total compensation, with the government sector ECI increasing to 2.3 percent for the 12-month period ending in September 2015. This was the third straight quarterly increase of a tenth of a percent since the start of 2015. (See Chart 3.) In the private sector, the compensation rate of increase over the previous 12 months was lower (1.9 percent) and unchanged from June. The growth rate of compensation costs for state and local government continues into its fourth year of gentle, upward trend.

Chart 3



A further contrast between compensation cost increases in the private sector and state and local government surfaces when total compensation is separated into its wage and salary and total benefits components.[1] Throughout and immediately after the 2008-2009 Great Recession, the ECI in state and local government was far above that in the private sector. This was the case for total compensation as well as both wage and salary costs and benefit costs. (See Charts 4 and 5.)

[1] 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.

But in 2010, the 12-month growth rate of wage and salary costs in the private sector surpassed that of the government sector, and has remained consistently higher. (See Chart 4). In contrast, with the exception a four-quarter period from Q2 2011 through Q1 2012, the year-over-year inflation rate for employee benefit costs in state and local government remained consistently above that of the private sector. (See Chart 5.)

Chart 4

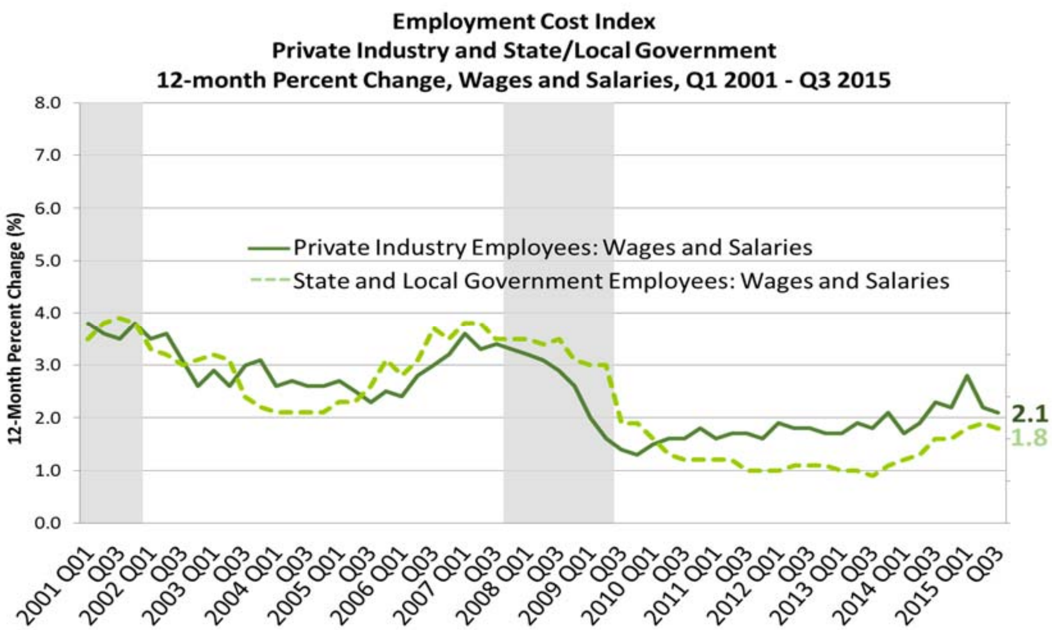
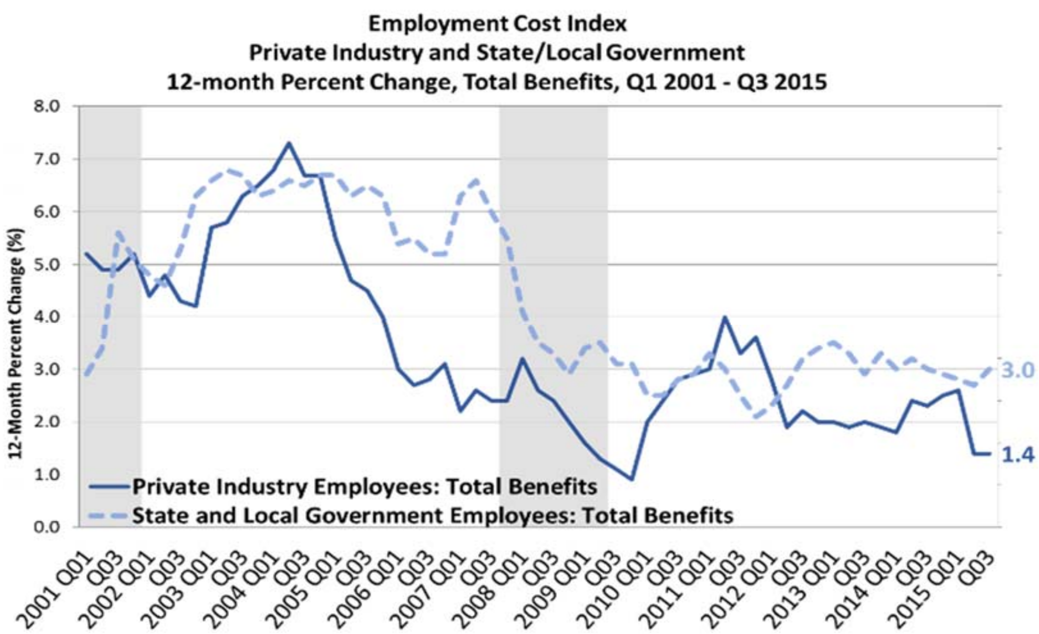


Chart 5



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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 2015 reference period were collected from a probability sample of approximately 36,900 occupational observations selected from a sample of about 8,600 private industry establishments and approximately 8,900 occupational observations selected from a sample of about 1,500 state and local government establishments that provided data at the initial interview.

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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