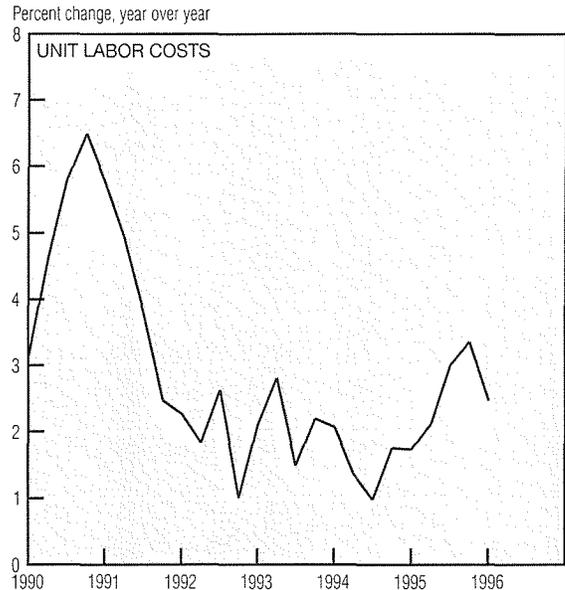
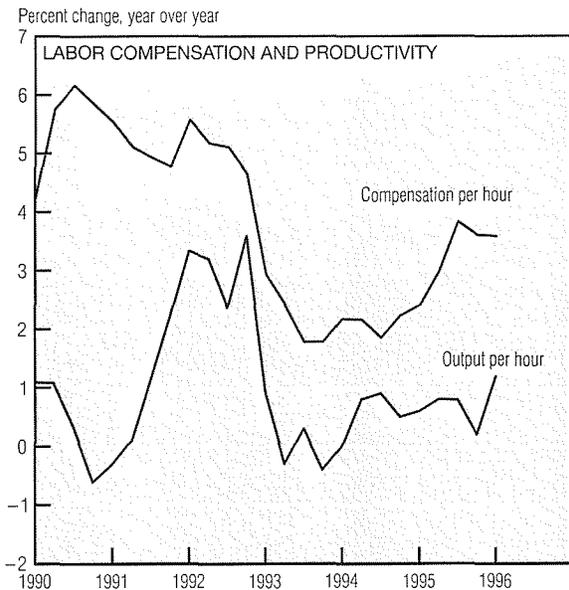
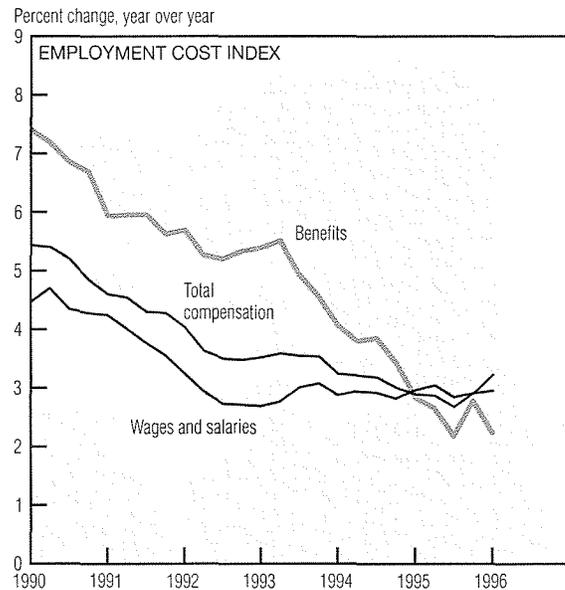
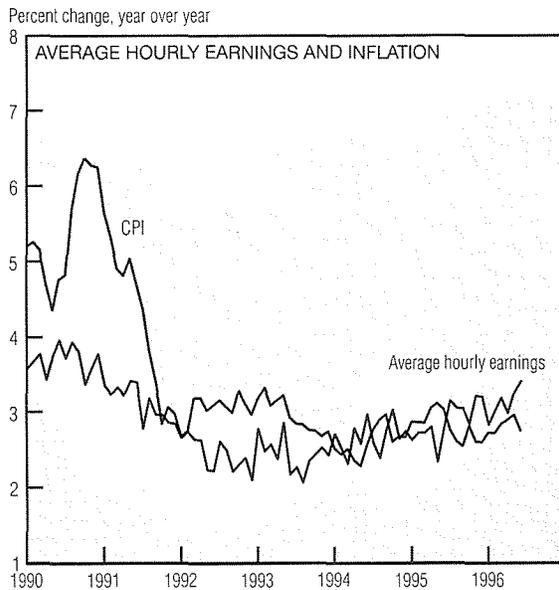


Wage Trends



SOURCE: U.S. Department of Labor, Bureau of Labor Statistics.

When inflation accelerates, so does the pace at which labor costs increase. The converse, however, is not true; that is, rising labor costs do not lead to inflation. Wage-push theories of inflation ignore the crucial role of money: Without excessive money growth, high wages cannot translate into a sustained, general rise in output prices.

Recent increases in labor compensation may encourage erroneous wage-based views of inflation. Average hourly earnings rose 3.4% in

June from their year-ago level, and have generally outpaced gains in the Consumer Price Index (CPI) since mid-1995. Similarly, the wages and salaries component of the employment cost index increased 3.2% in 1996:1Q. These narrow labor-price measures, however, do not include benefit costs, which have moderated during the current business expansion. Combining both, the total employment cost index has matched the economy's 3% underlying inflation rate since 1993.

The most comprehensive meas-

ure of the price of labor—total compensation per hour—advanced 3.6% on a year-over-year basis in 1996:1Q, following gains of 3.8% and 3.6% in the final two quarters of 1995. However the effect of changes in total labor compensation on output also depends on changes in labor productivity. In 1996:1Q, gains in labor productivity helped hold unit labor costs to a moderate 2.5%. Increases in unit labor costs have generally lagged the underlying pace of inflation since 1991.