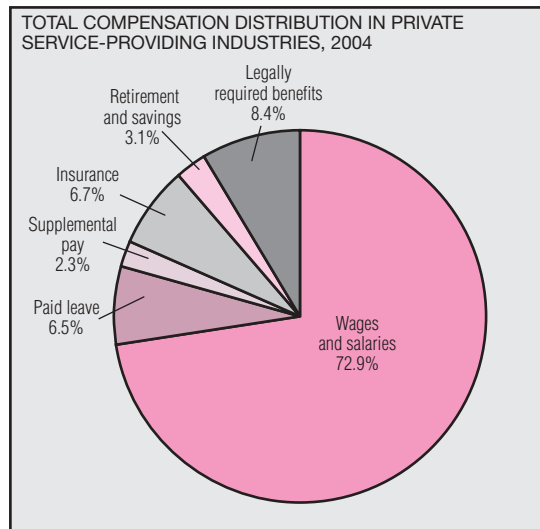
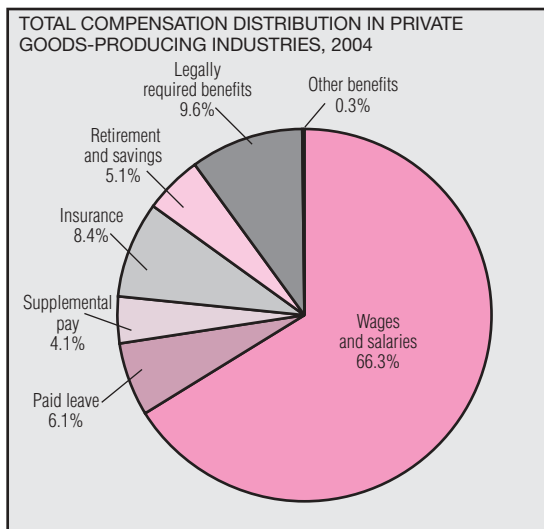
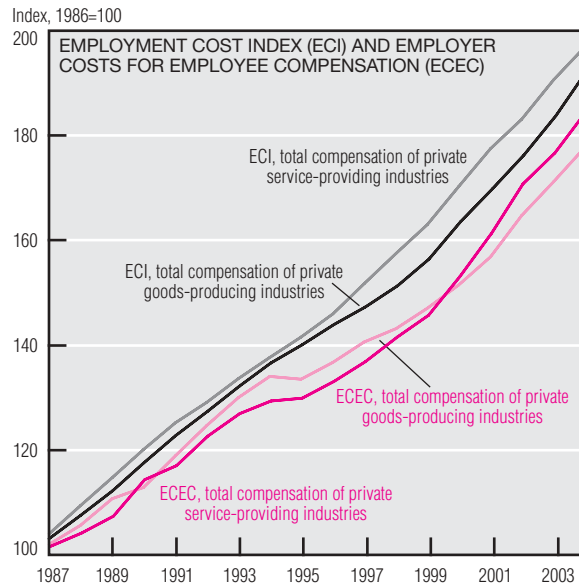
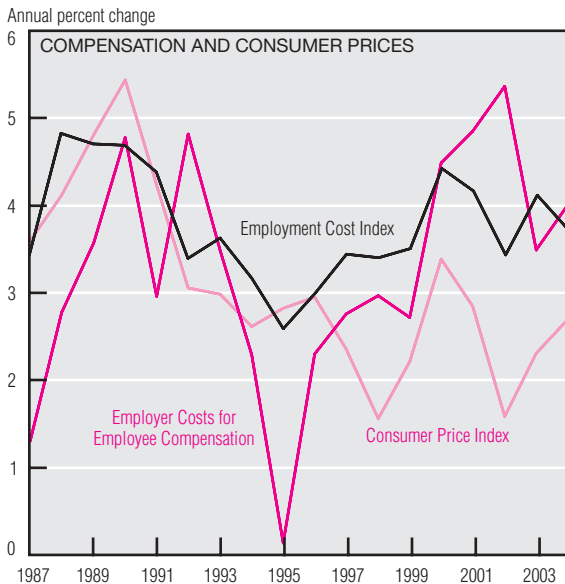


Compensation Costs



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

Measures of compensation growth are sensitive to differences in method: Both the Employer Costs for Employee Compensation (ECEC) and the Employment Cost Index (ECI) gauge the cost of labor; however, the ECI uses fixed weights to remove any cost changes related to labor reallocation across occupations and industries, whereas the ECEC uses current employment weights. During the 1990s, ECI-measured compensation growth exceeded ECEC-measured growth, partly because of a shift toward lower-paying jobs in private goods-producing and private service-providing

industries during the decade. More recently, growth in the ECEC (which measures the average cost per hour worked) exceeded the ECI, a reflection in part of the decrease in hours worked by lower-wage and salaried workers during the most recent recession. Since 1997, compensation growth has generally outpaced the inflation rate—in 2004, total compensation grew about 4.0%, and prices rose about 3.7%.

While the ECEC growth trend is confounded by changes in industry structure, real compensation differs substantially between sectors. In 2004, goods-producing workers earned

about 20% (\$5.07 in 2004 dollars) more than service providers. In addition, total benefits costs represent a greater share of total compensation costs for goods-producing workers. In 2004, this share reached its highest level in more than 15 years, with benefits accounting for over 33% of total compensation in goods-producing industries and about 27% in service-providing industries. Health insurance costs, employers' single largest benefit expense, accounted for 7.8% of total compensation in goods-producing industries and 6.2% in service-providing industries.