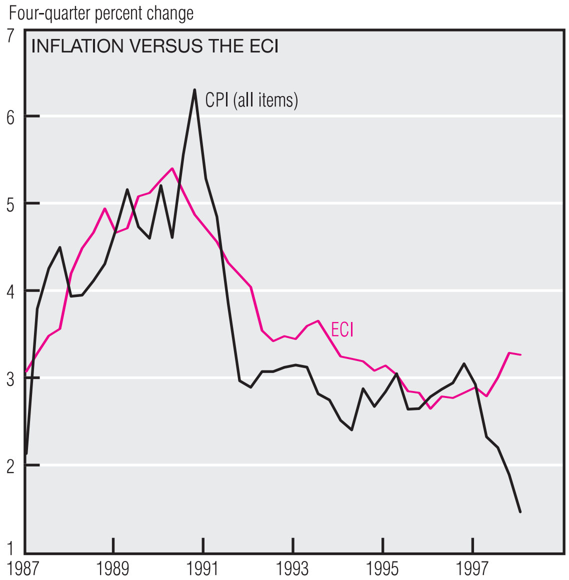
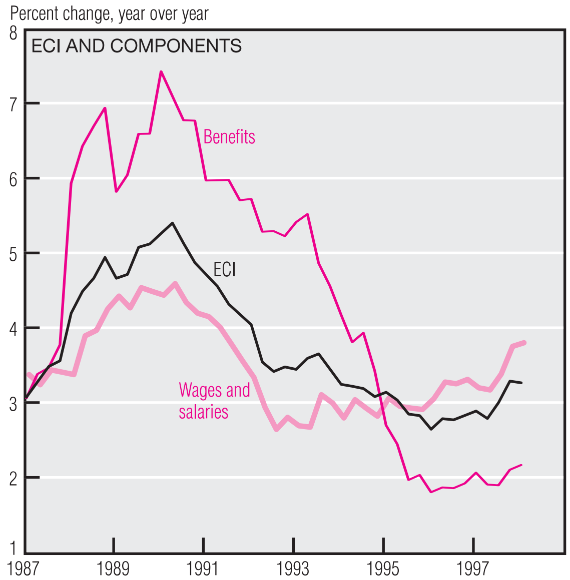
The Employment Cost Index





ECI Total Compensation by Industry

	Annualized percent change, last:		
	Quarter[a]	1 yr.	3 yr.
Private industry	3.6	3.5	3.1
Construction	2.8	2.7	2.5
Manufacturing	3.3	2.9	2.6
Transportation and public utilities	4.9	3.4	3.1
Wholesale trade	7.9	3.6	3.8
Retail trade	4.3	3.6	3.3
Finance, insurance, and real estate	6.7	6.3	4.4
Services	2.1	3.1	2.8
State and local government	3.3	2.5	2.6

ECI Total Compensation by Occupation and Region

	Annualized percent change, last:		
	Quarter[a]	1 yr.	3 yr.
Occupation			
White-collar	3.6	3.5	3.1
Blue-collar	2.4	2.6	2.5
Service	3.9	3.7	3.1
Region			
Northeast	3.0	2.9	3.0
South	2.7	3.6	3.4
Midwest	4.2	3.8	3.4
West	5.5	3.8	3.6

a. Annualized data.

SOURCES: U.S. Department of Labor, Bureau of Labor Statistics; U.S. Department of Commerce, Bureau of Economic Analysis; and the Federal Reserve Bank of Cleveland.

The Employment Cost Index (ECI) measures U.S. firms' total compensation costs (wages plus benefits). Similar to the way the Consumer Price Index (CPI) measures product prices, the ECI summarizes the cost of procuring a workforce with a fixed set of occupations. Because workers and firms generally try to maintain the real (inflation-adjusted) value of compensation, the ECI and CPI typically track each other closely. In periods when productivity growth is high, however, the ECI tends to exceed the CPI.

Even if benefit costs rise more slowly than consumer prices, it does not necessarily follow that the real value of those benefits to employees has declined. The benefits package measured by the ECI is diverse: Vacations, health care insurance, pensions, and mandated benefits like overtime pay and employer contributions to the Social Security and unemployment insurance funds are all included. When the unemployment rate is low, for example, firms' payments to the unemployment insurance fund drop. This pushes the ECI down, but the benefit to employees—insurance coverage—does not change. Likewise, employers' cost of providing health care benefits can decline without affecting the quality of workers' health care coverage.

Even in a period that is generally positive for workers, some employees gain more than others. Last year, for instance, white-collar and service-sector workers enjoyed higher compensation increases than blue-collar workers. Compensation growth also continues to be particularly strong in the finance, insurance, and real estate industries.