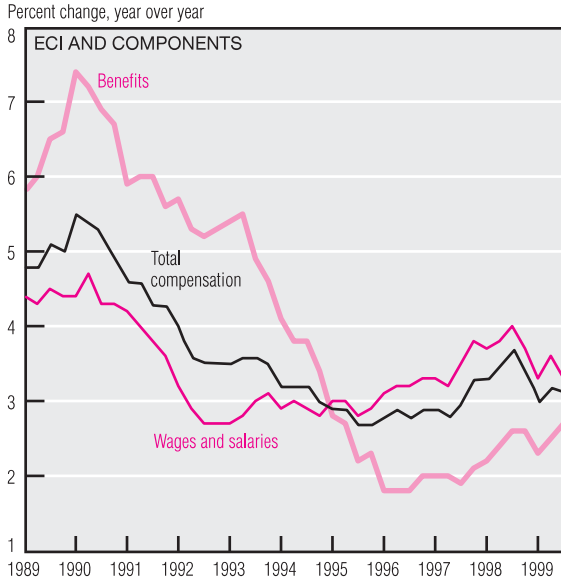
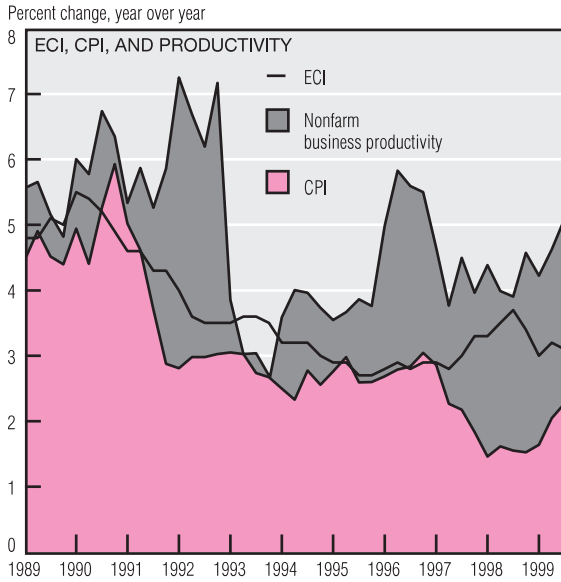


The Employment Cost Index



ECI Wage and Salary Growth by Industry and Region, 1999^a

Industry	Average annual percent change, last:		
	1 yr.	3 yrs.	6 yrs.
Manufacturing	3.1	3.1	3.0
Construction	3.2	3.3	2.9
TPI ^b	2.5	2.9	3.0
Wholesale and retail trade	3.2	3.6	3.3
FIRE ^c	4.4	5.2	4.1
Services	3.3	3.5	3.2
Region			
Northeast	3.2	3.1	3.0
South	2.9	3.5	3.2
Midwest	3.3	3.6	3.4
West	3.7	3.9	3.4



a. Workers in private industry.
 b. Transportation and public utilities.
 c. Finance, insurance, and real estate.
 SOURCE: U.S. Department of Labor, Bureau of Labor Statistics.

The Employment Cost Index (ECI), an important measure of compensation growth, gauges changes in employers' labor costs. Just as the Consumer Price Index (CPI) tracks prices for a fixed market-basket of goods, the ECI charts compensation of workers in a fixed set of industries and jobs within industries. Because it is not affected by shifts in occupation composition, the ECI can effectively measure labor costs for the same jobs over time.

One component of the ECI is growth in wages and salaries, which

has increased more rapidly than total compensation in recent years. Another component is growth in benefits, which has slowed significantly throughout the decade but has moderated in the last few years. For most groups of workers (by industry or by region), wage growth in 1999 was comparable to rates in recent years.

During the current expansion, ECI growth and inflation slowed together until 1997. In that year, the two measures began to diverge, as the ECI rose rapidly while falling oil prices caused the CPI to drop sharply.

These measures have begun to reconverge in 1999.

ECI and CPI growth patterns for this decade were similar until recently, but the causes are unclear. Inflation could rise if wage growth is not matched by productivity gains. Productivity has grown substantially in the past several years, permitting compensation to increase without sparking inflation. Although the unemployment rate over this decade has fallen and ECI growth has slowed, the correlation between these two measures is also uncertain.