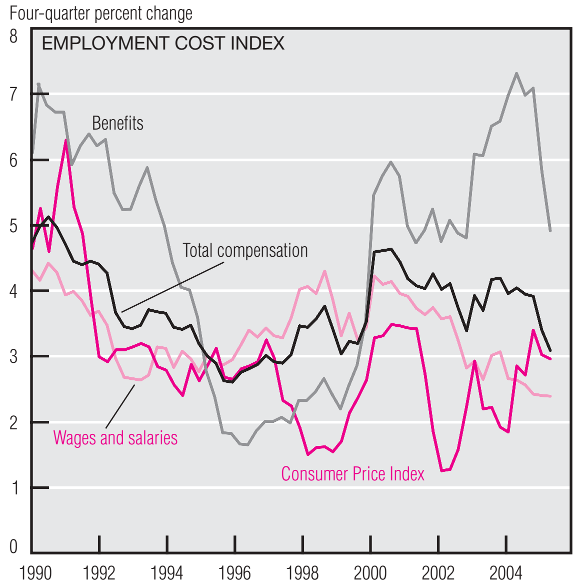
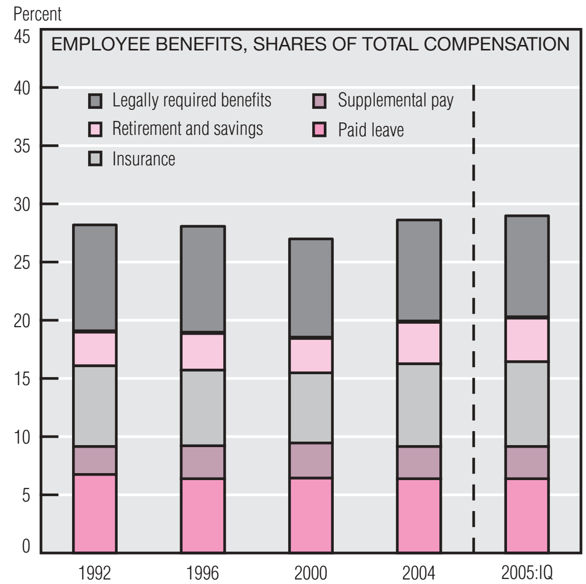
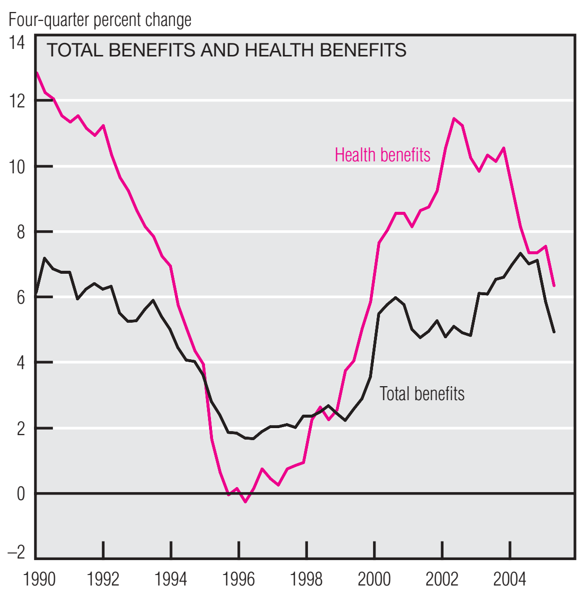
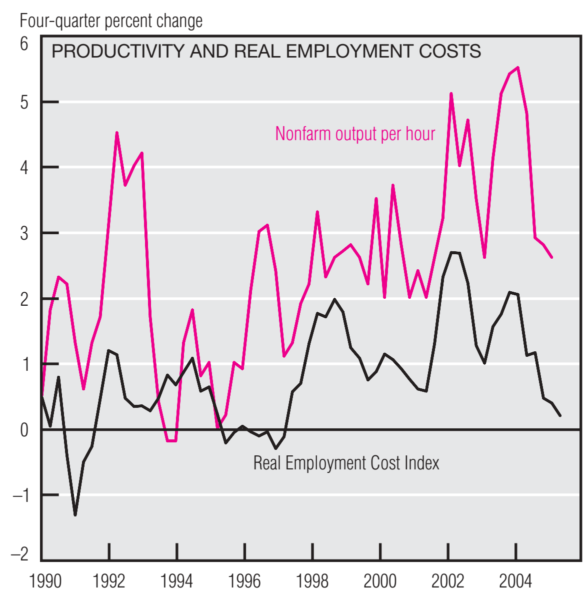
Employment Costs









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

Firms' costs of employing workers include wages and salaries as well as benefits. Total compensation costs, as measured by the Employment Cost Index (ECI), continue to grow only moderately: In 2005:IIQ, total compensation costs for workers in private industry rose 3.1% on a year-over-year basis, less than their average growth over the past two decades and only slightly above CPI inflation. Although total compensation has kept pace with inflation, real wages have been declining because inflation has outpaced wage growth over the past year: In 2005:IIQ, wages and salaries grew only 2.4% but the inflation rate rose 2.9%.

Benefits packages account for nearly 30% of firms' compensation costs. The ECI includes a variety of benefits, including vacation and holiday pay, health care insurance, and pension benefits, as well as legally required benefits such as Social Security and unemployment insurance contributions. The rise in benefits costs that began in the mid-1990s was caused partly by ballooning health insurance costs. Growth in health insurance costs, which are employers' single largest benefits expense (roughly 7.0% of total compensation costs in 2005:IQ), has decelerated over the past three years and accounts for some of the recent decline in benefits cost growth.

The slowdown in real compensation growth, resulting from slower growth in wages and salaries as well as in benefits costs, has been accompanied by slowing productivity growth. This suggests that as costs moderate, firms may not experience rising profit margins but instead may be subject to profit margin pressure as productivity growth declines.