

U.S. Data Review

- Employment cost index: below-average increase in Q2

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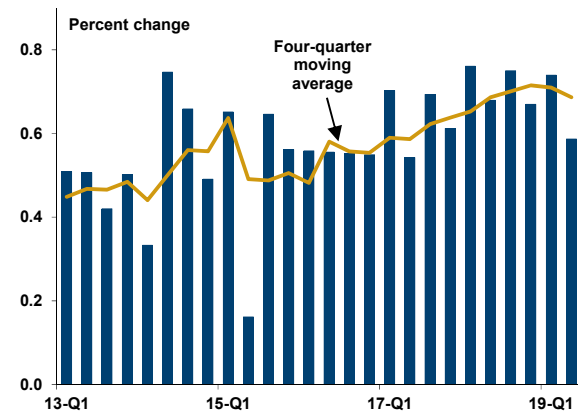
Employment Cost Index

The employment cost index, arguably the best available measure of labor compensation in the U.S., rose 0.6 percent in the second quarter, a touch lighter than the expected increase (and recent average) of 0.7 percent (chart, right). This measure includes both wages and benefits, and softness in Q2 came in the benefits category, which rose 0.5 percent in Q2 versus an average of 0.7 percent in 2017 and 2018. Wages rose 0.7 percent matching the recent average (charts, below).

The latest changes left the year-over-year increase in total compensation at 2.8 percent, down from 2.9 percent in the prior two quarters. Growth had been accelerating, but the latest changes suggest that upward pressure is abating. The sharpest change has occurred in the benefits category, where year-over-year growth has eased from a recent peak of 2.9 percent in the second quarter of last year to 2.3 percent in the latest quarter (chart, below left). Wage growth has not eased to the same degree, but it has stalled at approximately 3.0 percent rather than continuing to accelerate (chart, below right). Recent observations on average hourly earnings through June tell a similar story: growth stabilizing in the low-three-percent area rather than continuing to accelerate.

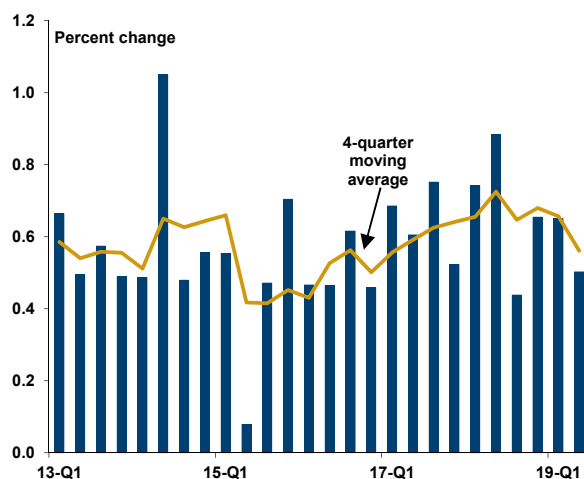
Fed officials seem to be questioning some of the metrics that have guided policy in the past, such as full employment at approximately 4.2 percent and a neutral nominal fed funds rate at 2.5 percent. Recent results on labor compensation are likely to reinforce doubts about full employment and neutral interest rates.

Employment Cost Index: Compensation



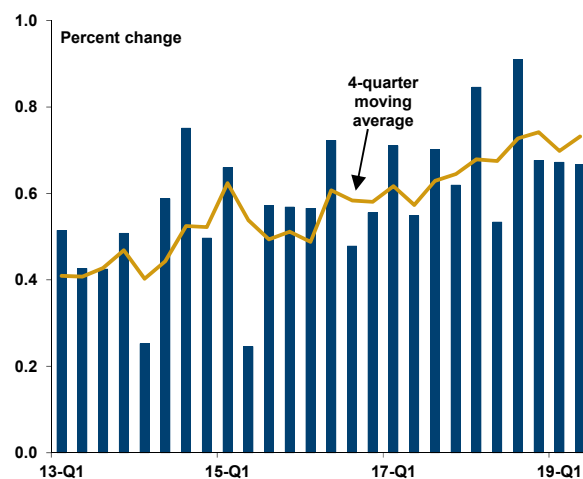
Source: Bureau of Labor Statistics via Haver Analytics

Employment Cost Index: Benefits



Source: Bureau of Labor Statistics via Haver Analytics

Employment Cost Index: Wages



Source: Bureau of Labor Statistics via Haver Analytics

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