SALUS GROUP

Report: Wages and Benefits Increase by 0.9% in Q4 2024

In its recent Economic Cost Index (ECI) report, the U.S. Bureau of Labor Statistics noted that compensation costs for civilian workers increased by 0.9% in the fourth quarter of 2024, consistent with the rise observed in the previous quarter. Over the 12-month period ending in December 2024, compensation costs grew by 3.8%, a slight deceleration from the 4.2% increase recorded in December 2023. Compensation for state and local government workers rose 4.7%, unchanged from the previous quarter.

Wages and salaries, which constitute the majority of compensation costs, also saw a 0.9% increase in the fourth quarter. Annually, wages and salaries rose by 3.8% through December 2024, down from a 4.3% increase in the previous year. Benefit costs for workers went up by 0.8% in the fourth quarter and experienced a 3.6% rise over the year, compared to a 3.8% increase in December 2023.

"A balanced labor market along with wage growth compression efforts by employers led to a moderate 0.9% gain in the Employment Cost Index (ECI) in Q4."

- Gregory Daco, chief economist at EY-Parthenon

These figures align with economists' expectations, indicating a steady but moderate growth in labor costs. The ECI, a key indicator of labor market health and a predictor of core inflation, reflects these trends.

The ECI measures changes in the cost of employees' wages and benefits to employers over time. The Federal Reserve (Fed) closely watches the ECI and the trajectory of wage growth as it considers interest rate changes. According to Reuters, a majority of forecasters expect the Fed to implement at least one interest rate cut by mid-2025, with some predicting it as early as March. However, there is no consensus, as predictions for the end of 2025 vary widely, ranging from 3.00%-3.25% to 4.50%-4.75%.

Employer Takeaways

The consistent rise in compensation costs underscores the ongoing challenges in managing labor expenses. While employers are actively increasing pay, workers are still struggling to make ends meet due to the ongoing impact of inflation and rising costs.

Additionally, with health care costs projected to rise significantly in 2025, employers should proactively plan for these anticipated increases to mitigate potential financial impacts. Contact us for more resources.