

Wages, benefits up at fastest pace in years

by AP-News

Employment Cost Index sees biggest increase since middle of 2004

WASHINGTON - Wages and benefits paid to American workers rose in the July-September period at the fastest pace in more than two years.

The Labor Department reported that its Employment Cost Index was up 1 percent in the third quarter, compared to a 0.9 percent rise in the April-June period. It was the biggest quarterly increase since a similar 1 percent rise in the second quarter of 2004.

The increase, which was above the 0.9 percent rise that economists had been expecting, was led by a big jump in the cost of employee benefits such as health insurance and pensions.

For the third quarter, benefit costs rose by 1.1 percent, up from a 0.8 percent gain in the second quarter. Wages and salaries were up 0.9 percent, matching the increase in the second quarter.

Officials at the Federal Reserve are watching closely to see whether wage pressures are beginning to accelerate, a development that would give workers more money in their paychecks but could fuel unwanted inflation.

The Fed is hoping that its two-year campaign to slow the economy by raising interest rates will do the trick to send underlying inflation rates lower without slowing growth so much that the economy topples into a recession.

The government reported last week that the overall economy grew at a lackluster annual rate of just 1.6 percent in the July-September period, the slowest pace in three years, reflecting a sharp fall in the once-booming housing industry.

Analysts believe the recent sharp decline in the cost of gasoline and other energy products will give consumers more money to spend on other items and provide a boost to the economy in the final three months of this year.

The Fed, after raising interest rates for 17 consecutive times, has left rates unchanged since August with financial markets hoping that inflation pressures will slow enough to keep the central bank on the sidelines for an extended period.

There are indications that the Fed's battle against inflation is having an impact. The government reported Monday that the Fed's preferred measure of inflation, which excludes energy and food, rose by 2.4 percent over the 12 months ending in September, down slightly from a 2.5 percent rise for the 12 months ending in August.

Even with the slight decline, inflation is still above the Fed's comfort zone of 1 percent to 2 percent, which is why analysts believe the Fed will not respond to the slowing economy with rate cuts until inflation declines to a more acceptable level.

For the 12 months ending in September, overall compensation costs were up 3.3 percent, compared to a 3 percent rise for the 12 months ending in September 2005.

Wages and salaries are up 3.2 percent over the past year, a significant rise from the 2.3 percent gain for the 12 months ending in September 2005. Benefit costs, however, were up 3.3 percent for the year, down from a 5 percent rise for the year ending in September 2005.

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