ECONOMIC UPDATE

REGIONS

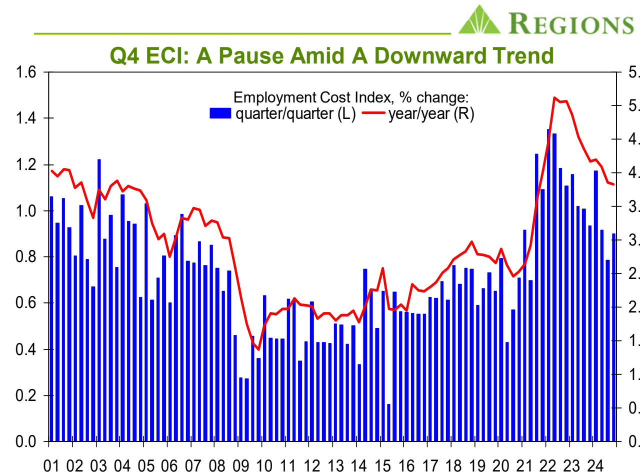
January 31, 2025

This Economic Update may include opinions, forecasts, projections, estimates, assumptions, and speculations (the "Contents") based on currently available information, which is believed to be reliable and on past, current, and projected economic, political, and other conditions. There is no guarantee as to the accuracy or completeness of the Contents of this Economic Update. The Contents of this Economic Update reflect judgments made at this time and are subject to change without notice, and the information and opinions herein are for general information use only. Regions specifically disclaims all warranties, express or implied, with respect to the use of or reliance on the Contents of this Economic Update or with respect to any results arising therefrom. The Contents of this Economic Update shall in no way be construed as a recommendation or advice with respect to the taking of any action or the making of any economic, financial, or other plan or decision.

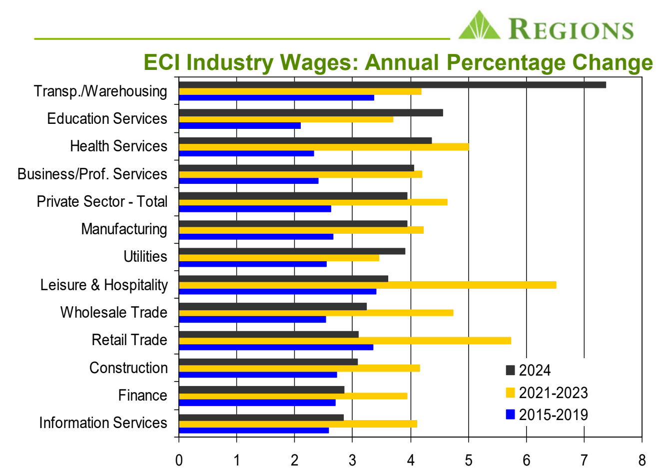
Q4 2024 Employment Cost Index: A Pause Amid A Downward Trend

- The total ECI was up 0.9 percent in Q4 2024, with the wages/salaries component up 0.9 percent and the benefits component up 0.8 percent.
- For full-year 2024, the total ECI was up 4.0 percent, with wage costs up 4.1 percent and benefit costs up 3.7 percent.

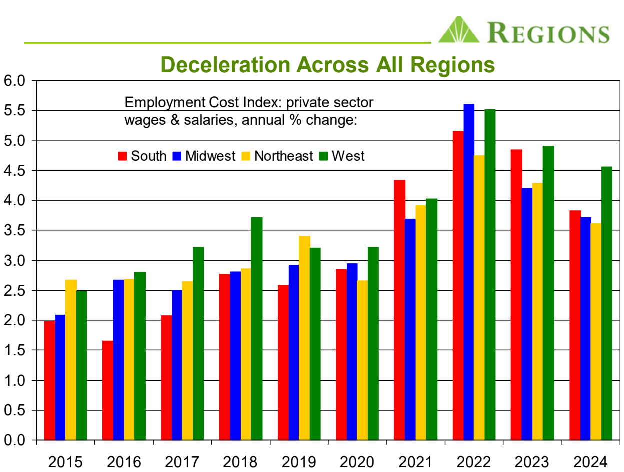
Total compensation costs, as measured by the Employment Cost Index (ECI), rose by 0.9 percent in Q4, in line with the consensus forecast but above our forecast of a 0.7 percent increase, with the wages component up 0.9 percent and the benefits component up 0.8 percent. On a year-on-year basis, the total ECI is up 3.8 percent, the wages component is up 3.8 percent, and the benefits component is up 3.7 percent. Though the Q4 print was a touch heavier than we anticipated, we see this as no more than a pause amid a clear downward trend in growth of labor costs. That we expect this trend has at least a bit further to run is in keeping with a host of indicators showing cooling in labor market conditions. The slowing trend in growth of labor compensation costs can be seen across industry groups and across geographies. That said, though moderating, wage growth continues to easily outpace inflation while at the same time growth in labor productivity has been trending higher. This is pretty much the ideal set of circumstances for workers and firms and should bring comfort to those central bankers who think wage growth to be a prime source of inflation pressures in the broader economy. While we do expect further moderation in the growth of labor costs, we nonetheless expect wage growth to settle into a trend rate higher than that seen prior to the pandemic. If we are correct on that point, how comfortable central bankers are with that will very much depend on whether the pickup in underlying productivity growth is sustained, as we expect will be the case.



The ECI is one of the three main data series – the others being average hourly earnings from the monthly employment report and unit labor costs from the quarterly labor productivity and costs report – showing trends in labor costs. The ECI tends to get less attention than its two counterparts but to us is the most meaningful of the three series. The ECI is designed to measure changes in total labor costs, for both money wages and salaries and noncash fringe benefits (such as health insurance), and also includes employer-paid taxes such as Social Security and Medicare. One distinction between the wage component of the ECI and the more widely followed average hourly earnings metric is the ECI is not affected by shifts in the composition of employment across industry groups. Instead, the wage component of the ECI effectively measures wage costs for the same jobs over time and the total ECI measures labor costs (i.e., wages and benefits) for the same jobs over time. One drawback of the average hourly earnings metric is that it is skewed by changes in the composition of employment and hence will mask earnings differentials across industry groups, and these distortions have been even more pronounced since the onset of the pandemic.



Our middle chart goes to our point about wage growth settling somewhere between the pre-pandemic trend rate and the frenzied pace in the first few years of the recovery from the pandemic. Note that the jump in wages in transportation and warehousing services in 2024 reflects the effects of the UPS contract, effects which will be absent going forward. Other than that instance, education services is the sole industry group in which 2024 wage growth was above the average pace seen over the 2021-2023 period. We'd also argue that the slowdown in wage growth in leisure and hospitality services and retail trade in 2024 was a bit overstated given the significantly faster growth seen over the prior few years and that, as such, wage growth going forward will be further above the pre-pandemic trend rate than was the case last year. As our bottom chart shows, the deceleration in wage growth is also evident in the geographic cuts in the data, with all regions seeing slower growth in 2024.



One pillar of our argument that wage growth would settle at a pace above the pre-pandemic trend rate has been our expectation that the labor force participation rate would not fully rebound from the sharp decline seen at the onset of the pandemic. To the extent that growth in foreign born labor slows even more sharply than we've anticipated, that could add to upward pressure on wages. Another pillar of our argument has been our expectation that labor productivity growth would run ahead of the pre-pandemic trend rate and, as such, facilitate faster wage growth than seen prior to the pandemic. So, but barring a more pronounced slowing in the broader economy and, in turn, the labor market, than we anticipate, we continue to expect a higher floor for wage growth.

Regions Financial Corporation, 1900 5th Avenue North, 17th Floor, Birmingham, Alabama 35203
Richard F. Moody, Chief Economist • 205.264.7545 • richard.moody@regions.com