Slowing wage growth may influence interest-rate hike

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Employee compensation growth slowed sharply in the second quarter, a development that could prompt the Federal Reserve to delay a hike in interest rates.

The Employment Cost Index — which tallies wages, salaries and benefits — edged up just 0.2% in the April-June period, the Department of Labor said Friday, the slowest pace on record dating to the early 1980s. It surged 0.7% in the first quarter.

Over the past 12 months, the index is up 2% after rising 2.6% in the first quarter — which was the fastest pace since the fourth quarter of 2008. Wages and salaries increased 2.1% year over year and benefits 1.8%. Private total compensation was unchanged during the period compared to the first quarter, while state and local government surged 0.6%

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Economists have been puzzled by the failure of wages to rise at a faster pace despite a 5.3% unemployment rate and a shrinking pool of available workers.

Jim O'Sullivan, chief U.S. economist at High Frequency Economics, largely blamed the slowdown last quarter on a sharp decline in sales-related incentives, which inflated the previous quarter's gain. Excluding incentive-paid occupations, private wages were up about 2% in the first and second quarters, he said.

"This report clearly does not help the case for Fed tightening in September, but it likely does not hurt the case significantly either," O'Sullivan wrote in a note to clients. He noted that Fed officials have said they simply need to be "reasonably confident" inflation will drift toward its annual 2% goal over the medium-term.