



No Sign of Slowing Wage Growth

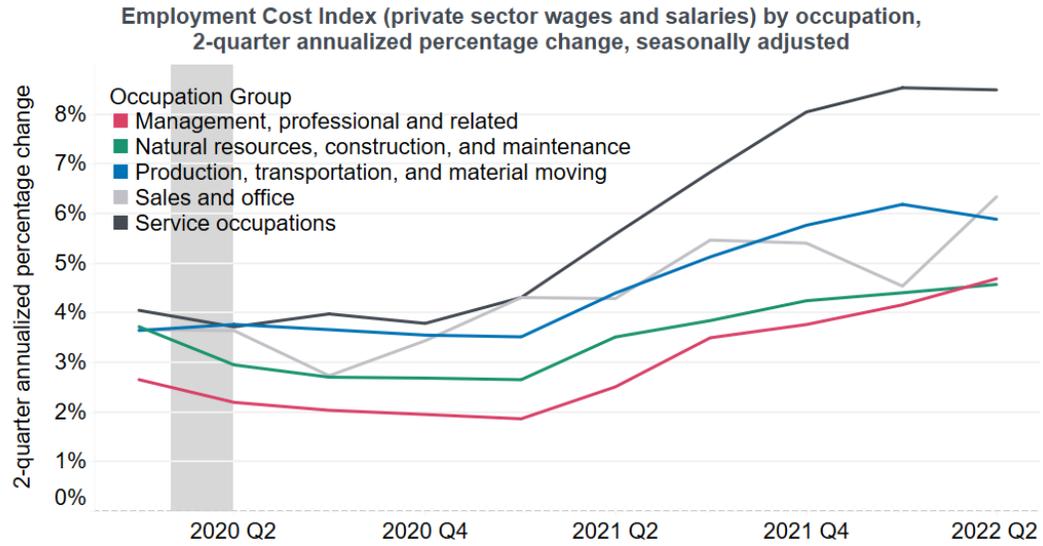
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Commentary on today's U.S. Bureau of Labor Statistics Employment Cost Index

Wage growth continues to be strong and is accelerating further. The Employment Cost Index for Q2 2022 shows that wages and salaries for private industry workers increased by 5.8 percent at a 2-quarter annualized rate, up from 4.9 percent in the previous 2-quarters. Wages and Inflation continue to rise and momentum has not stopped. Wages have not grown this fast since the mid-1980s and this is a big uptick compared to a year ago when wages increased 4.3 percent at a 2-quarter annualized rate. Labor shortages are the main reason for strong pay increases. Additionally, fast growth in prices and wages feed into each other.

Wide differences in wage growth exist across jobs. Wages for manual services workers (e.g., food services, cleaning, personal care, healthcare support) grew at 8.1 percent at a 2-quarter annualized rate, much faster than 5.0 percent for management and professional workers (e.g., computer, engineering, science, legal, finance) (See Chart). While labor markets are tight across the entire economy, labor shortages are especially severe for manual labor and manual services workers.

While wage growth is still strong today, in 2023 pay increases could possibly decelerate. Amid strong inflation and Fed interest rate hikes, the economy is expected to slow over the coming months and possibly enter a short and mild recession by the end of this year and into early 2023. Even though so far, the labor market has been rapidly adding new jobs to the economy (on average 375,000 over the last 3 months), we expect the labor market to cool in reaction to slowing economic activity. As a result, employers would be hiring less which would then result in diminished recruitment challenges and reduced pay increases.



Note: Shaded area represents recession.
 Source: US Bureau of Labor Statistics

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