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U.S. WORKERS GET BIGGEST PAY INCREASE IN NEARLY A DECADE

Employment cost index, which measures wages and benefits, grew 2.8% in the 12 months to last month

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WASHINGTON – U.S. workers received their biggest pay increases in nearly a decade over the 12 months through June, a sign the strong labor market is boosting wages as employers compete for scarcer workers.

The Labor Department's employment-cost index rose 2.8 percent in the year to June compared, the government said Tuesday. Wages and salaries, which account for about 70 percent of all employment costs, also rose 2.8 percent from a year earlier, the strongest gain for both measures since September 2008.

Since the end of the most recent recession, U.S. unemployment has fallen to 4 percent in June from nearly 10 percent nine years earlier. Wage growth, stubbornly sluggish for years following the 2007-2009 downturn, has picked up as the labor market has tightened and employers have raised pay to attract and retain workers.

It is now approaching the average pace seen in earlier periods of growth. From 2001 to 2007, wages and salaries as measured by the employment-cost index increased 2.9 percent a year on average, well above the 1.9 percent average since the second quarter of 2009 when the current expansion began.

Wage gains are coming with a modest pickup in inflation, which is eating at some of the gains for workers.

A separate report Tuesday from the Commerce Department showed inflation continues to hover near the Federal Reserve's 2 percent year-over-year target. The price index for personal-consumption expenditures was up 2.2 percent in June from a year earlier and rose 0.1 percent from May. Excluding volatile food and energy costs, prices also rose 0.1 percent from May and increased 1.9 percent from a year earlier.

Some companies are raising prices to compensate for higher commodity costs. Procter & Gamble Co. said Tuesday it was raising prices on some of its biggest brands, a strategy shift after the consumer-products giant reported another quarter of lackluster revenue growth and weak demand.

Boat-engine maker Brunswick Corp. has raised average selling prices by 6 percent so far this year, partly in response to raw materials inflation, and the company intends to keep raising prices over the second half of the year.

People "don't like [a] price increase, but it really hasn't affected the demand or the market," Brunswick Chief Executive Mark Schwabero said during a July earnings call.

Still, many economists said the gradual pace of price and wage increases means the overall picture for inflation and the economy remains rosy as the third quarter progresses.

“What we’ve been seeing is a very modest, gradual acceleration in wages,” said JPMorgan Chase economist Michael Feroli. The employment-cost index, a measure of wages and benefits for civilian workers, is slowly moving in the right direction, he said.

Stable inflation, gradually rising wages and low unemployment suggest the U.S. economy’s Goldilocks moment is continuing, running neither too hot nor too cold. In the second quarter, the U.S. economy grew at the fastest pace in nearly four years, notching an annual growth rate of 4.1 percent.

A broad measure of Americans’ pretax income – including that from wages and salaries and other sources, such as investments and government payments – rose at a solid 0.4 percent rate in June from May. Such household income is up about 5 percent from a year earlier, roughly keeping pace with the increase in consumer spending during that time.

The Conference Board on Tuesday said its index of U.S. consumer confidence rose to 127.4 in July from 127.1 in June. The index has eased from highs earlier in the year, as has the University of Michigan’s consumer-sentiment index, which declined in July for the third time in four months.

Signs of gradually rising inflation come as U.S. central bankers meet in Washington, D.C., for a two-day policy gathering. Officials are likely to leave their benchmark federal-funds rate unchanged Wednesday and wait until September for the next increase. They raised the rate twice this year, most recently in June to a range between 1.75 percent and 2 percent, and have penciled in two more moves this year.

Fed officials believe a little bit of inflation at a consistent and predictable rate is needed to keep the economy growing steadily and at a healthy pace.