

Economic Indicator — February 10, 2026

## Q4 Employment Cost Index Signals Labor Market Yet to Stabilize

### Summary

The Employment Cost Index came in a bit softer than expected in Q4 and points to the labor market continuing to gradually cool. Relative to a year ago, compensation costs were up 3.4%, the slowest pace of growth since early 2021. Although wages & salaries have led the slowdown, benefit costs have also cooled, with health benefits being a notable exception.

Overall, compensation growth has settled to a pace that supports real income gains for workers without adding meaningful pressure to inflation, particularly when considering the solid trend in productivity recently. This dynamic should make labor costs less of an obstacle to inflation's return to target, but it also underscores a moderating labor market that keeps the Fed alert to the downside risks to its full employment mandate.

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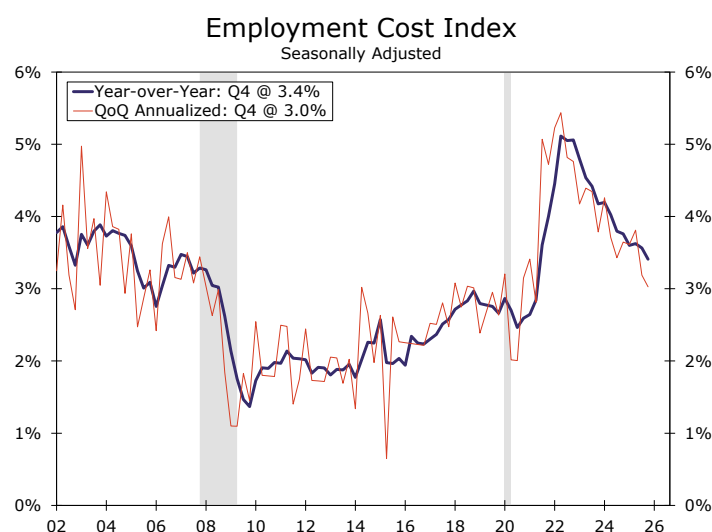
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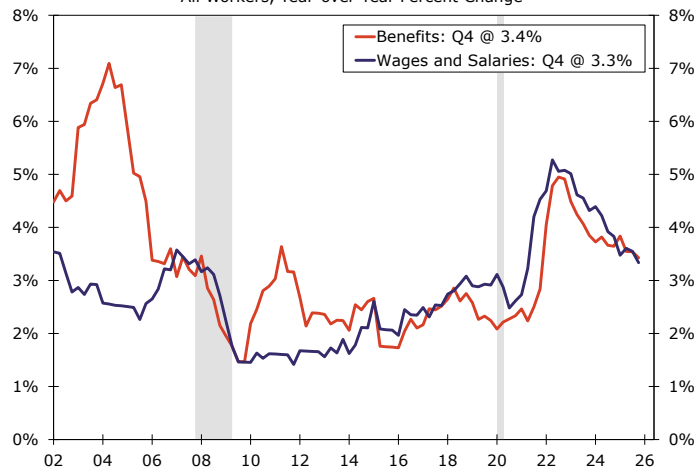
Source: U.S. Department of Labor and Wells Fargo Economics

## Moderation in Compensation Growth Continued Through Year-End

Employment cost growth continued to moderate at the end of the year, rising a softer-than-expected 0.7% in the fourth quarter. Over the past year, labor costs have risen 3.4%, the slowest pace since the spring of 2021 ([chart](#)). The ongoing slowdown in compensation growth according to the ECI marks a departure from the more timely average hourly earnings data, which has shown wages rising at just under 4% year-over-year since early 2025. But we believe the ECI's signal of further softening in the jobs market carries more weight in Fed officials' assessment of the labor market. The ECI has long been considered the Fed's preferred measure of labor costs because it controls for compositional changes in employment and is broader in scope since it includes benefit costs and compensation costs for public sector workers.

### Wages and Salaries vs. Benefits Growth

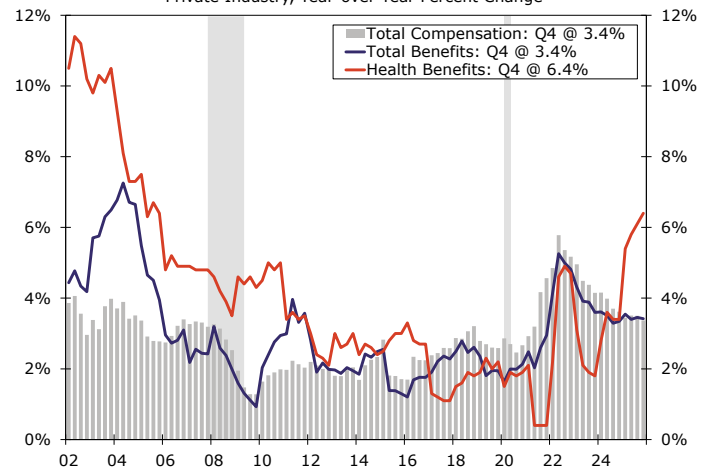
All Workers, Year-over-Year Percent Change



Source: U.S. Department of Labor and Wells Fargo Economics

### Employment Costs: Health Benefits

Private Industry, Year-over-Year Percent Change



Source: U.S. Department of Labor and Wells Fargo Economics

The easing in total compensation growth has been underpinned by the gradual slowdown in wages & salaries, which rose 3.3% year-over-year in the fourth quarter ([chart](#)). Across industries, wage growth has slowed most noticeably in areas that have seen sluggish hiring over the past year, such as professional & business services and information. Meantime, wage growth has strengthened in construction and retail trade, pockets of the labor market that have likely seen tighter labor supply relative to demand.

Benefit costs rose 3.4% in the fourth quarter, outpacing wages & salaries on a year-ago basis, but still cooling on trend. Rapid growth in health benefits is buoying the overall pace of benefit cost growth, with insurance costs up 6.4% over the past year ([chart](#)). A more detailed breakdown of benefit growth is not available with this release. However, the latest report on [Employment Costs for Employee Compensation](#) shows supplemental pay, which includes overtime rates and non-production bonuses, leading the slowdown in another sign that underlying employment conditions have softened.

Overall, compensation cost growth as far as the Fed is concerned remains in the Goldilocks zone of not too hot and not too cold: workers are still seeing real wage and compensation gains, but labor costs are not growing so fast as to be a hurdle for returning inflation to target once accounting for the ~2% trend in productivity growth this cycle. The current pace should help ease Fed officials' lingering concerns about inflation, but the direction is likely to make them question whether labor market conditions have indeed stabilized.

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