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Wage Growth is No Longer on Pace to Eclipse Inflation by Q4 2024 Amid Cooling Labor Market

Pay in accommodations and food services along with leisure and hospitality industries has surpassed inflation since January 2021

NEW YORK - September 16, 2024 - May 2023 marked the first time in years that workers' wages began rising faster than inflation, but according to Bankrate's annual Wage to Inflation Index, wage growth is still trailing total inflation since the beginning of 2021.

Due to a sharper than expected pullback in the labor market, worker pay is now on pace to fully recover from inflation by the second quarter of 2025. Bankrate's index for 2023 previously estimated that wages were trending toward fully eclipsing total post-pandemic inflation by the fourth quarter of 2024. Click here to learn more:

<https://www.bankrate.com/banking/federal-reserve/wage-to-inflation-index/>

Since January 1, 2021, inflation has risen 20.0%, while wages increased 17.4% in the same period, according to the latest data provided by the Bureau of Labor Statistics for the second quarter of 2024. Three unexpectedly hot inflation months at the beginning of 2024 were balanced out by three months of slower inflation, aligning closely with Bankrate's estimates from a year ago. Last year, Bankrate projected that inflation would grow 3.187% between Q2 2023 and Q2 2024, with actual prices rising 3.194%.

Yet, as the job market cooled off, wage growth ended up losing more steam than expected. Last year, Bankrate projected that wages were on pace to grow 4.60% between Q2 2023 and Q2 2024, with actual growth falling slightly short, coming in at 4.03%.

“A slowdown in the job market is a side effect of higher interest rates — and that’s exactly what the doctor, or Federal Reserve, ordered,” said Bankrate Analyst Sarah Foster. “Our projections were never meant to be a forecast. They were simply a model for how things would look if the economy kept evolving the way it had been. But thanks to the slowdown we’ve already seen in the job market, wages are on pace to recover from inflation later than they were expected to at this point last year.”

However, not all industries have lost ground to inflation. Wage growth in the accommodations and food services as well as leisure and hospitality industries has continued to surpass inflation. Meanwhile, after originally beating overall post-pandemic inflation in Bankrate's 2023 analysis, pay in the retail sector has now fallen back in the race against inflation.

Breakdown of overall inflation rate, followed by wage growth data by industry:

- *This year's wage growth (2021-2024): +20%*
- *Last year's wage growth (2021-2023): +15.8%*

Industry	This year's wage growth (2021-2024)	Last year's wage growth (2021-2023)
Accommodations and food services	+23.7%	+19.6%
Leisure and hospitality	+23.3%	+18.9%
Retail	+19.4%	+16%
Health care and social assistance	+19%	+13.9%
Professional and business services	+16.6%	+11.8%
Financial activities	+14.3%	+10.2%
Manufacturing	+16%	+11.7%
Construction	+14.1%	+1%
Education	+13.6%	+8.6%

“The Federal Reserve is about to cut interest rates to ensure they aren’t slamming the brakes on economic growth and the job market too much,” added Foster. “Americans’ paychecks are what’s at stake if the Fed keeps interest rates too high for too long. Inflation will keep harming Americans’ finances until their incomes fully recover, but if the job market and economy nosedives, it puts their paychecks at risk of catching up much more slowly, if at all.” (<https://www.bankrate.com/banking/federal-reserve/what-is-inflation/>)

Methodology:

Bankrate indexed the Department of Labor’s headline consumer price index (CPI) and employment cost index (ECI) measure for wages and salaries to January 1, 2021. To

determine the pace at which inflation and wage growth have been slowing, and to chart out future inflation & wage figures assuming the same pace, Bankrate performed polynomial regression analyses using data from Q1 2021 to Q2 2024 to find the respective best fit lines. All figures from ECI reflect employers' wages and salary costs for private-industry workers, except for education, which includes wages for both public and private-sector employees. Bankrate's projections are not predictions for the U.S. economy or real-world trends and should only be used for insight through the second quarter of 2025.

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