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0.9% in the last quarter of 2023.

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By Associated Press (via Fast Company, TNS)

Pay and benefits for America's workers grew in the final three months of last year at the slowest pace in two and a half years, a trend that could affect the Federal Reserve's decision about when to begin cutting interest rates.

Compensation as measured by the government's Employment Cost Index rose 0.9% in the October-December quarter, down from a 1.1% increase in the previous quarter, the Labor Department said Wednesday. Compared with the same quarter a year

meaningful" interest rate cuts by the Fed, said James Knightley, chief international economist for European bank ING.

While Fed officials have signaled they will lower their benchmark rate this year, they haven't signaled when they will begin, a decision eagerly awaited by Wall Street investors and many businesses. The slowing wage gains could make the Fed more comfortable cutting its rate as early as March, economists said. Still, most analysts expect the first cut will occur in May or June.

When the Fed reduces its rate, it typically lowers the cost of mortgages, auto loans, credit card rates, and business borrowing.

The pace of worker compensation plays a big role in businesses' labor costs. When pay accelerates especially fast, it increases the labor costs of companies, which often respond by raising their prices. This cycle can perpetuate inflation, which the Fed is assessing in deciding when to adjust its influential benchmark rate.

Since the pandemic, wages on average have grown at a historically rapid pace, before adjusting for inflation. Many companies have had to offer much higher pay to attract and keep workers. Yet hiring has moderated in recent months, to levels closer those that prevailed before the pandemic. The more modest job gains have reduced pressure on companies to offer big pay gains.

The Federal Reserve considers the ECI one of the most important gauges of wages and benefits because it measures how pay changes for the same sample of jobs. Other measures, such as average hourly pay, can be artificially boosted as a result of, say, widespread layoffs among lower-paid workers.

Even as wage increases slow, inflation has fallen further, leaving Americans with better pay gains after adjusting for rising prices. After taking inflation into account, pay rose 0.9% in last year’s fourth quarter, compared with a year earlier, up from a

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