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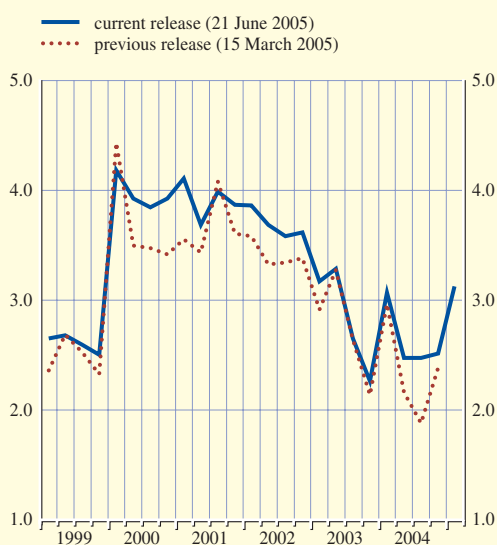
NEW SERIES OF HOURLY LABOUR COSTS IN THE EURO AREA

On 21 June 2005 Eurostat released new data for the euro area quarterly Labour Cost Index (LCI) based on improved methodology and coverage, as required by a recent European regulation.¹ This regulation establishes a common framework, which aims to further increase the cross-country comparability of these statistics. The harmonisation is an important step towards improving labour costs statistics at the euro area level. This box presents the methodological changes and the resulting data for the euro area LCI.

The LCI measures the changes in labour costs per hour worked in industry and services. As from 2005, all EU countries have to transmit national LCI results to Eurostat no later than 70 days after the reporting quarter, and Eurostat will release euro area and EU aggregates. The improvement in the LCI is one of the most recent results of the Action Plan on EMU statistical requirements, endorsed by the Council for Economic and Financial Affairs (ECOFIN) in September 2000. The new LCI is a useful complement to the data for compensation per employee that are already available from the National Accounts.

Change in hourly labour costs

(annual percentage changes; quarterly data)



Source: Eurostat.

With the June release, significant methodological changes have been implemented by a number of euro area countries including Germany, France and Italy. The changes are most pronounced for the hours worked component (the denominator) of the index, as some countries are now in a position to estimate actual hours worked (or hours paid) instead of the previously used number of persons employed. Further changes are related to the coverage (inclusion of small enterprises, more complete coverage of market services) and to the statistical sources used.²

1 Regulation (EC) No 450/2003 concerning the labour cost index, adopted under the EMU Action Plan in February 2003.

2 The technical specification of the index formula has also changed: country data from the current release are compiled as an annually chain-linked Laspeyres index, replacing the former fixed base index. The euro area index is still aggregated with country weights from a fixed base year (2000).

The methodological improvements have led to revisions in the series of hourly labour costs. On average over the period 2000-04, the annual growth rate of hourly labour costs for industry and market services in the euro area was revised upwards by 0.2 percentage point (see Chart A). The annual growth rate of wages and salaries, which account for around three-quarters of total labour costs, was revised upwards by 0.1 percentage point. The annual growth rate of the other cost components, mainly reflecting employers' social contributions, was revised upwards by 0.5 percentage point. Taking account of these upward revisions, the new pattern of growth in hourly labour costs confirms the significant slowdown in wage pressures that took place between 2001 and mid-2004. More recently, this downward movement appears to have levelled off, with the new data indicating an increase in labour cost growth since mid-2004. However, caution is warranted in interpreting short-term developments in this indicator, which has sometimes been subject to significant short-term volatility, in particular since the fourth quarter of 2003. Indeed, other indications of labour cost developments (see Section 3.3) still point to moderate wage growth at the beginning of 2005.

Chart B shows the annual growth rates of hourly labour costs in industry excluding construction, construction and market services³. The annual growth rate of hourly labour costs in the construction sector has declined continuously since 2002, and reached 1.3% in the first quarter of 2005, significantly below its average of 2.7% for 2004. Having declined between 2000 and 2004, the annual growth rate in market services increased in the first quarter of 2005, to 2.9%. Finally, in industry excluding construction, the annual growth rate reached 3.5% in the first quarter of 2005, above its average of 2.8% in 2003 and 2004.

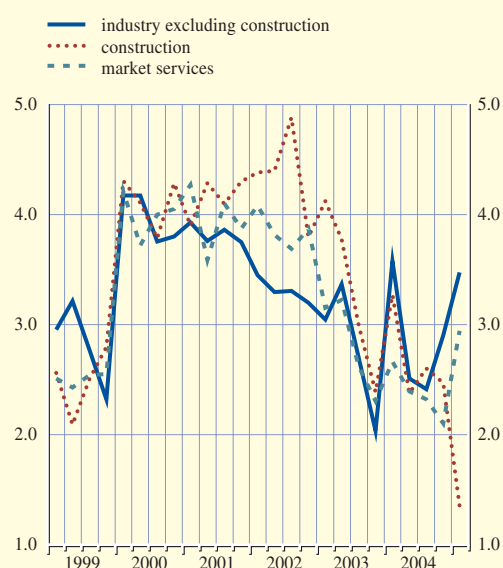
It is expected that countries will introduce further improvements in the coming quarters and, as a consequence, additional revisions of euro area LCI results cannot be excluded. Furthermore, depending on the successful completion of feasibility studies, the coverage (including non-market services) and the breakdown (excluding the effect of bonuses) will further improve in the future.

Overall, the new series of labour costs is an important source of information for wage cost developments. However, the information extracted from this indicator needs close monitoring and cross-checking with the other available indicators of wage developments (compensation per employee and negotiated wages).

³ Market services include trade, repairs, hotels and restaurants, transport, communication, financial intermediation, real estate, renting and business activities.

Chart B: Hourly labour costs by economic activity

(annual percentage changes; quarterly data)



Source: Eurostat.