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Labour cost index - recent trends

Data extracted in June 2019
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Highlights

In the first quarter of 2019, annual growth in labour costs was 2.4 % in the euro area and 2.6 % in the EU.

In the first quarter of 2019, the highest annual increases in hourly labour costs in the EU were registered in Romania (16 %) and Bulgaria (13 %).

Nominal hourly labour costs in the EU and euro area, whole economy, 2019 Q1 (% change compared with the same quarter of the previous year and calendar adjusted)

EU-

28EAROBGSKLVSICZEEPLHULHRLUCYFRITDEESFIBEIEDKMTSEUKNLPTATEL%024681012141

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- Source: Eurostat (online data code: lc_lci_r2_q)

The [labour cost index \(LCI\)](#) shows the short-term development of the [labour cost](#), the total cost on an hourly basis of employing labour. In other words, the LCI measures the cost pressure arising from the production factor “labour”. This article takes a look at the most recent evolutions of the LCI, both at the level of the [European Union \(EU\)](#) and the [Member States](#).

In addition, [Eurostat](#) estimates of the annual labour cost per hour in euros are provided for EU Member States as well as the whole EU; they were obtained by combining the four-yearly [Labour cost survey \(LCS\)](#) with the quarterly labour cost index. Since the release in April 2013, these figures have been moved to a [separate article on hourly labour costs](#).

Overview

Eurostat publishes labour cost index data for NACE Rev. 2 sections B to S. The aggregate is referred to as "whole economy" for the purpose of simplification. For the EU and EA aggregates, these series are available from 2008 onwards. The previously published aggregate (NACE Rev. 2 B to N) is referred to in this article as "business economy". The aggregate of NACE Rev. 2 sections O to S is referred to as "mainly non-business economy". Please note that any private firm providing services in any of the sections O to S (e.g. education or health services) is also included in this aggregate.

EU and euro area

Hourly labour costs rose by 2.4 % in the [euro area](#) and by 2.6 % in the [EU-28](#) in the first quarter of 2019, compared with the same quarter of the previous year. In the fourth quarter of 2018, hourly labour costs increased by 2.3 % in the [euro area](#) and by 2.8 % in the [EU-28](#).

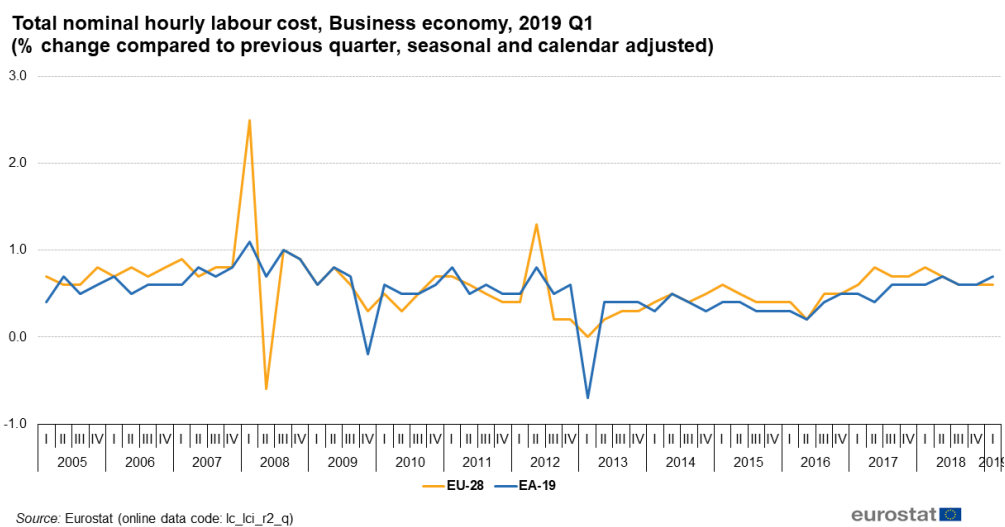


Figure 1: Total nominal hourly labour cost, Business economy, 2019 Q1 (% change compared to previous quarter, seasonal and calendar adjusted)

Source: Eurostat ([lci_lci_r2_q](#))

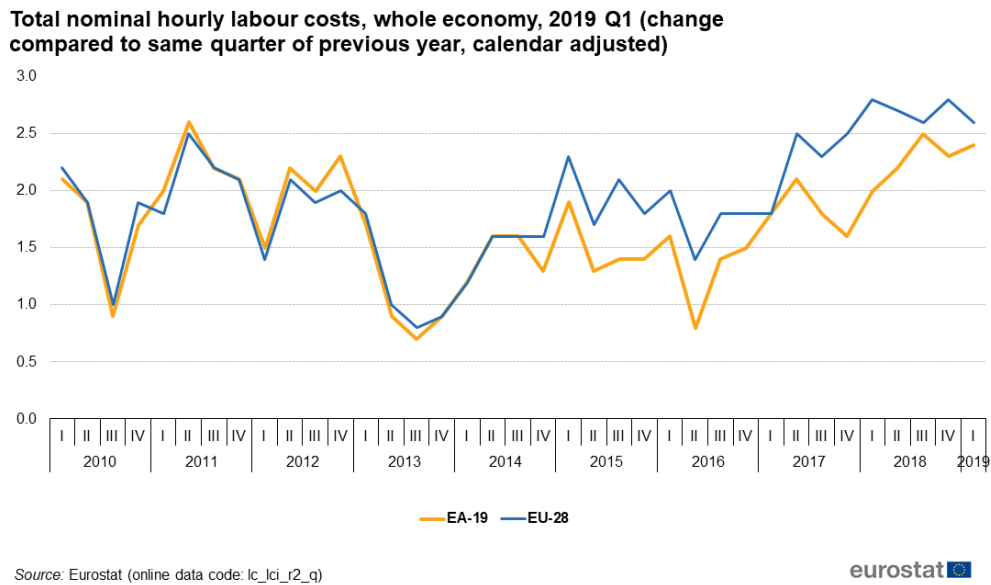


Figure 2: Total nominal hourly labour costs, Whole economy, 2019 Q1 (% change compared to same quarter of previous year, calendar adjusted)

Source: Eurostat ([lc_lci_r2_q](#))

The two main components of labour costs are wages and salaries and non-wage costs. In the euro area, the cost of wages and salaries per hour worked grew by 2.5 % and the non-wage component by 2.2 % in the first quarter of 2019 compared with the same quarter of the previous year. In the fourth quarter of 2018, the annual changes were +2.3 % and +2.4 % respectively. In the EU-28, the costs of hourly wages and salaries rose by 2.7 % and the non-wage component rose by 2.1 % in the first quarter of 2019. In the fourth quarter of 2018, annual changes were +3.0 % and +2.3 % respectively.

Breakdown by economic activity

In the fourth quarter of 2018 compared with the same quarter of the previous year, hourly labour costs in the euro area rose by 2.5 % in industry, by 2.3 % in construction, by 2.4 % in services and by 2.5 % in the (mainly) non-business economy. In the EU-28, labour costs per hour grew by 2.4 % in industry, by 2.0 % in construction, by 2.5 % in services and by 2.8 % in the (mainly) non-business economy.

Member States

In the first quarter of 2019, the highest annual increases in hourly labour costs for the whole economy were registered in Romania (+16.3 %) and Bulgaria (+12.9 %), while the only decrease was recorded in Greece (-0.2 %).

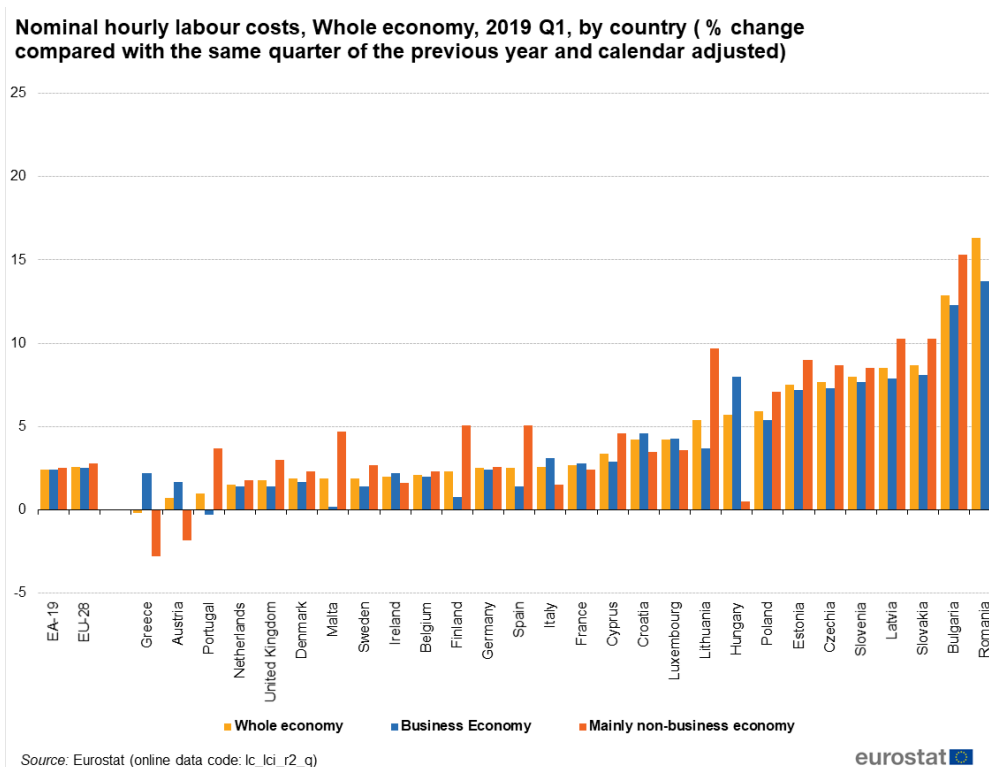


Figure 3: Nominal hourly labour costs, Whole economy, 2019 Q1, by country (% change compared with the same quarter of the previous year and calendar adjusted)

Source: Eurostat ([lc_lci_r2_q](#))

Hourly labour cost in euros

Since the release in April 2013, these figures have been moved to a [separate article on hourly labour costs](#).

Data sources

Labour cost index

The labour cost index is defined as the [Laspeyres](#) index of labour costs per hour worked, chain-linked annually and based upon a fixed structure of economic activity at [NACE Rev.2](#) section level. The current reference year of the index is 2016. In addition to the index numbers, annual and quarterly growth rates of labour cost are also calculated.

EU Member States produce the necessary estimates by using surveys, other appropriate sources such as administrative data and statistical [estimation](#) procedures.

Also, different estimation methods are used, as for example estimations of separate growth rates for labour costs and hours worked, or the application of growth rates of some labour cost components to all labour cost components.

Since annual or even 4-yearly benchmark surveys as well as estimation methods play an important role for the production of quarterly LCI figures in most Member States, revisions are frequent and can go back several years.

EU aggregates are obtained as [weighted](#) aggregates of the national data. The weights reflect the share of labour costs that each Member State has in the total EU aggregate. While the LCI itself is compiled in national currency and thus not influenced by exchange rate movements, the share of the Member State for the EU aggregates is measured in euro and can therefore vary according to the value of the national currency against the euro. In practice, these variations are however very small and have no influence on the comparability of the LCI series over time.

Eurostat has labour cost index data available for all Member States, the euro area and the EU on a quarterly basis from the year 2000 on. Data are broken down by cost items (Total cost, Wages and salaries, Other labour costs) and by economic activity (NACE sections). Index numbers and growth rates are made available for the total cost index as well as for the subdivisions wages and salaries and non-wage labour cost by economic activity.

In the news release, the following NACE aggregations are published:

- The whole economy (NACE Rev. 2 sections B to S, i.e. excluding agriculture, forestry and fishing, as well as activities of households as employers and activities of extraterritorial organisations and bodies). This is broken down into:
 - The business economy (NACE Rev. 2 sections B to N); for the EU/EA aggregates this accounts for about 70 % of the labour costs of the whole economy and is further broken down into:
 - Industry (NACE Rev. 2 sections B to E); B Mining and quarrying, C Manufacturing, D Electricity, gas, steam and air conditioning supply, E Water supply; sewerage, waste management and remediation activities.
 - Construction (NACE Rev. 2 section F).

- Services (NACE Rev. 2 sections G to N); G Wholesale and retail trade, repair of motor vehicles and motorcycles, H Transportation and storage, I Accommodation and food service activities, J Information and communication, K Financial and insurance activities, L Real estate activities, M Professional, scientific and technical activities, N Administrative and support service activities.
- The mainly non-business economy (NACE Rev. 2 sections O to S); for the EU/EA aggregates this accounts for about 30 % of the labour costs of the whole economy. It contains O Public administration and defence; compulsory social security, P Education, Q Human health and social work activities, R Arts, entertainment and recreation, S Other service activities.

In the database, all series are available in [calendar adjusted](#) form; this means that differences in hourly labour cost which arise due to a varying number of working days are corrected for. Also, all series are available on a [seasonally adjusted](#) basis. Seasonal adjustment corrects for infra-annual variations in the labour cost index which can arise due to recurring events, such as new school and university graduates entering the labour market in the autumn. Quarter-on-quarter growth rates are based on seasonally adjusted data, year-on-year growth rates are based on calendar adjusted data.

New data are released every quarter, about 75 days after the end of the reference quarter.

Context

The labour cost index is an essential part of the range of statistics that are relevant for an understanding of the [inflationary](#) process and the cost dynamics in the economy.

Information on labour costs is required for economic and monetary policies, wage bargaining and economic analyses. Labour costs are an important potential source of [inflation](#) since they account for a large proportion of the total costs borne by private businesses, which may pass higher labour costs, in particular if not reflected in higher [productivity](#), on to consumers via higher end prices, thus fuelling inflation. A timely labour cost index is therefore of utmost importance for the [European Central Bank \(ECB\)](#) in order for it to be able to monitor inflation in the euro area.