

Box 3**Monitoring wage and labour cost developments in the euro area****Euro area data on wage and labour costs**

The monitoring of wage and labour cost developments in the euro area relies on a number of sources of data and information available at both the area-wide and the national level. The wage formation process varies across the euro area owing to differences in the institutional framework, the economic structures and national practices. As a result, national data on wage and labour costs are often based on different definitions, which makes them difficult to aggregate. For the same reason, the availability of harmonised area-wide data on wage and labour costs is limited.

The two major area-wide indicators are unit labour costs (compiled from quarterly national accounts) and the hourly labour cost index, which was first released by Eurostat in April 1999. In quarterly national accounts unit labour costs are calculated as the ratio of compensation per employee to labour productivity. While, within the framework of the ESA 95, unit labour costs and their components will ultimately be available for six sectors in a timely fashion, currently neither timely nor disaggregated information on unit labour costs is available. In some cases Member States have not yet released national accounts data compiled in accordance with the ESA 95 (and have ceased to release data under the old definitions); in other countries data on employment, which are necessary for the unit labour cost calculation, are temporarily suspended or unavailable with the correct sectoral breakdown. Once these initial problems have been resolved, the timeliness of this indicator should become standard. According to current indications, it will be possible to calculate the ESA 95 data on unit labour costs at the euro area level in early 2000, and the normal publication of these data should follow thereafter.

Eurostat also compiles an hourly labour cost index on the basis of national data coming from business surveys and administrative sources. Although these data are not fully harmonised, they are reasonably comparable as Member States aim to use jointly agreed definitions in their methods of calculation. Labour costs include gross wages and salaries, as well as social contributions paid by the employer. Hourly labour costs are defined as the ratio of these costs for all employees (including part-time workers, casual employees and apprentices) to the volume of hours worked. Eurostat currently releases this indicator for industry and for the whole economy with a publication lag of around three months. In fact, the basic data for the indices cover economic activities C to K according to the statistical classification of economic activities in the European Community, "NACE Rev. 1". The data thus include all market economic activities except agriculture, fisheries, forestry, education, health, entertainment, information and personal services. For the whole economy, a breakdown into wages and salaries and other non-wage labour costs is also provided. Since the first release of the hourly labour cost index in April 1999, the data quality has improved and is expected to do so further as Member States incorporate small sectors of the economy initially excluded or improve the estimation of the volume of hours worked.

Apart from the hourly labour cost index, Eurostat also releases conventional earnings indices covering a longer time period. These are based on non-harmonised national data and comprise the wages and salaries paid directly and regularly by the employer. They include social contributions and income taxes paid by the employee, including those withheld by the employer and paid directly to social insurance schemes and tax authorities. However, significant differences exist in the methods of calculation used in the different euro area countries. Therefore, the area-wide aggregate should be interpreted with considerable caution.

A forward-looking assessment of wage developments

A forward-looking assessment of wage developments requires far more information than is available from the area-wide data described above. This is particularly true as such data are released with unavoidable lags and do not appear to have leading indicator properties. A major element in the wage formation process is the outcome of wage negotiations. The results of wage settlements represent a basic indication of forthcoming wage developments. However, the impact of settlements on actual wage developments depends on the precise content of these settlements. These include, in addition to regular wage increases, possible one-off payments, overtime restrictions or payments and other specific arrangements. At the macroeconomic level the number of employees covered by wage negotiations and the wage drift, which reflects the impact of the conjunctural situation on wages actually paid through fluctuations in overtime payments and bonuses, must also be taken into account, as well as other specific factors such as the leading role played by some sectors or the determination of minimum wage increases. Structural changes in labour markets may also affect the wage bargaining process and its impact on actual wage developments. In short, the forward-looking assessment of wage developments is not straightforward and requires a thorough analysis of a wide range of information.