

Box 3

Recent developments in euro area labour cost indicators

This box reviews recent developments in hourly labour costs, placing them alongside those of other available sources in order to give a broad assessment of labour costs in 2000.

Available labour cost indicators for the euro area

There are three main labour cost indicators available for the euro area: compensation per employee, hourly labour costs and gross monthly earnings. In addition, unit labour costs are calculated as the ratio of compensation per employee to output per employed person (productivity). This latter concept is, however, not directly comparable with the other indicators as it provides a measure of the labour cost of producing a standard unit of output. The main characteristics of the current set of euro area labour cost indicators are presented in the table below.

Euro area labour cost indicators

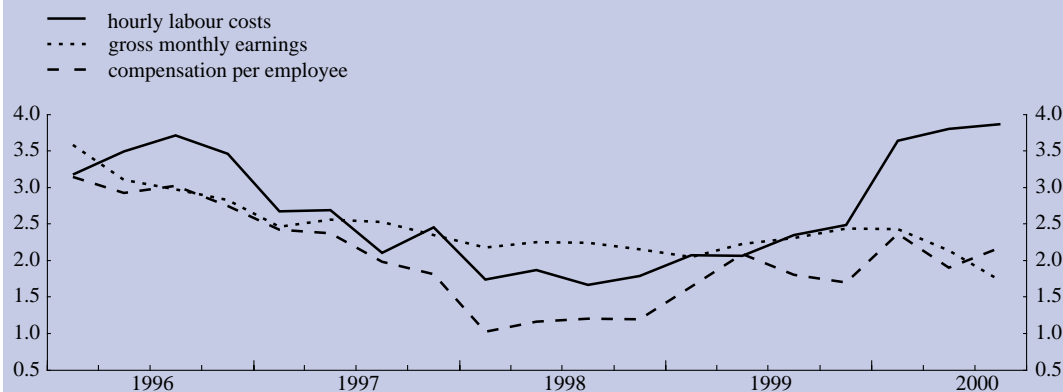
	Eurostat definition	Coverage
Compensation per employee	Total compensation divided by the total number of employees. Total compensation is defined as the total remuneration, in cash or in kind, payable by an employer to an employee in return for work done by the latter during the accounting period. It includes employees' direct earnings (wages, salaries and bonuses) and all indirect compensation (employers' social security contributions).	Whole economy. All countries except Ireland, Luxembourg and Portugal, i.e. 95% of the euro area.
Hourly labour cost index	Total labour costs for all employees divided by all hours worked by these employees (including overtime). Labour costs include the same components as total compensation.	Non-agricultural business sector. All countries except Greece. Differences in sector coverage between countries.
Gross monthly earnings	Total earnings divided by all employees. Earnings correspond to gross wages and salaries, including all payments made to the employee as remuneration for their work (wages and salaries in money or in kind and bonuses of any kind), but not employers' social security contributions.	Non-agricultural business sector. All countries except Greece. Differences in sector coverage between countries.

Differences between these indicators can arise mainly as a result of differences in the sectoral coverage and in the definition of labour costs used. With regard to sectoral coverage, as opposed to compensation per employee, which refers to the whole economy, hourly labour costs and monthly earnings currently cover only 65% of total employment, represented by the non-agricultural business sector. The difference is basically attributable to the public and public-related services, such as public administration, education and health, in addition to agriculture. However, despite such differences, these indicators have moved reasonably closely in the past, with the exception of developments in hourly labour costs in 2000 (see the chart below).

As regards differences in the definition of labour costs, the difference between growth rates in compensation per employee and monthly earnings may give an indication of the effect of changes in employers' social security contributions. In addition, the difference between compensation per employee and hourly labour cost growth may point to the effect of changes in the number of hours worked per employee. Developments in compensation per employee and monthly earnings have so far been broadly stable, increasing by 2.2% and 2.1% on average in the first three quarters of 2000 compared with 2.0% and 2.3% in 1999, pointing to moderate annual growth rates. This would appear to be broadly in line with negotiated wage increases in 2000. By contrast, as mentioned above, hourly labour cost growth was around 3.8% on average in the first three quarters of 2000, which not only means a significant increase compared with 1999, when the rate of growth was 2.2%, but also a substantial widening of the gap relative to the other two sources compared with previous years.

Euro area labour cost indicators

(annual percentage changes; quarterly data)



Sources: Eurostat and ECB calculations.

Factors which explain recent developments in hourly labour costs

Different developments between hourly labour costs and compensation per employee may arise, in principle, as a result of different sectoral coverage and a change in the number of hours worked. In this respect, a marked difference in wage developments in the non-market sectors compared with the rest of the economy could be an explanatory factor. Moderate wage increases in public administration, health, education and other services could imply lower growth rates in compensation per employee than in hourly labour costs. However, given that monthly earnings generally refer to the same sectors as hourly labour costs and are growing less rapidly, this factor does not seem to be responsible for the widening of the gap in the euro area.

With regard to changes in hours worked, the fact that part-time employment is growing in the euro area more rapidly than full-time employment normally implies a higher wage growth per hour than per worker. Indeed, in 1998 and 1999 the gap between hourly labour costs and compensation per employee growth, of around 0.3 percentage point, could be attributed to a significant increase in part-time jobs compared with full-time jobs. However, the gap in 2000 widened considerably compared with that of the previous two years and there is no reason to believe that developments in part-time employment have changed enough to explain the gap of 1.5 percentage points in 2000.

A number of factors in individual countries seem to explain the significant rise in hourly labour costs. In particular, in Italy the increase in hourly labour costs in the first quarter of 2000 was partly owing to one-off payments in industry and in the banking sector and in Spain to indexation clauses which compensate *ex post* for the difference between expected and observed inflation in 1999. Second, the implementation of the 35-hour week in firms with more than 20 employees (previously 39 hours per week) in France implied an increase in the growth rate of hourly labour costs throughout 2000. Statistical problems may also have contributed to the increase in hourly labour cost growth. For example, in Germany and the Netherlands there were fewer working days in 2000 compared with 1999. This calendar effect had a temporary upward impact on the increase in labour costs per hour in 2000.

Taking into consideration developments in the various indicators, 2000 appears to have been characterised by wage moderation in the euro area as a whole. However, while part of the increase in hourly labour costs can be attributed to exceptional factors, other factors which were also a source of recent increases could be pointing to upward risks. The latter include *ex post* indexation clauses, which can be seen as second-round effects, and the reduction in the number of hours worked. In addition, there is also the risk that the tightness of labour markets in some countries and the rise in inflation in 2000 may adversely affect wage moderation in 2001.