

## Box 5

### Monitoring wage developments: an indicator of negotiated wages

The ECB regularly monitors a set of labour cost and wage indicators (e.g. unit labour costs, compensation per employee and hourly labour costs) in order to assess, in particular, the possible influence of labour costs on the outlook for price developments and the risks to price stability over the medium term. Each indicator may provide a slightly different picture of labour cost developments, depending on whether they are based on the number of employees or hours worked, and depending on whether bonuses, overtime payments or social security contributions are included (for further details, see the boxes in the October 1999 and February 2001 issues of the ECB's Monthly Bulletin). An important common source of information for all these indicators can be obtained from the outcome of collective bargaining agreements, although the latter are themselves dependent on specific wage bargaining practices in the national labour markets. The direct outcome of the bargaining between social partners can be referred to as "negotiated wages". As a general rule, it excludes bonuses, overtime and other individual compensation that is not linked to collective bargaining. Any difference between the actual wage outcome and the previously agreed or negotiated wage is generally referred to as the "wage drift". Hence, a measure of the wage drift may be derived from a comparison between an indicator of negotiated wages and indicators of the actual wage outcome such as gross monthly earnings or compensation per employee (corrected for developments in social security contributions).

The ECB has constructed an indicator of negotiated wages for the euro area using available national data. The euro area indicator presented in this box is calculated as the weighted average of national year-on-year growth rates of collectively agreed wages for most euro area countries. However, a number of important caveats need to be borne in mind when interpreting the developments in this indicator. In particular, it is based on non-harmonised national data, and the coverage of collectively agreed wages varies across countries. For example, some national indicators do not take account of the public administration and/or agricultural sectors. Nevertheless more than two-thirds of total compensation of the economy is covered. Furthermore, in a few cases there is no available national indicator of negotiated wages. In particular, the French index of gross monthly earnings is used as a proxy. It should also be noted that not all euro area employees are explicitly covered by collective agreements. Another source of differences across countries lies in the treatment of certain types of bonuses.

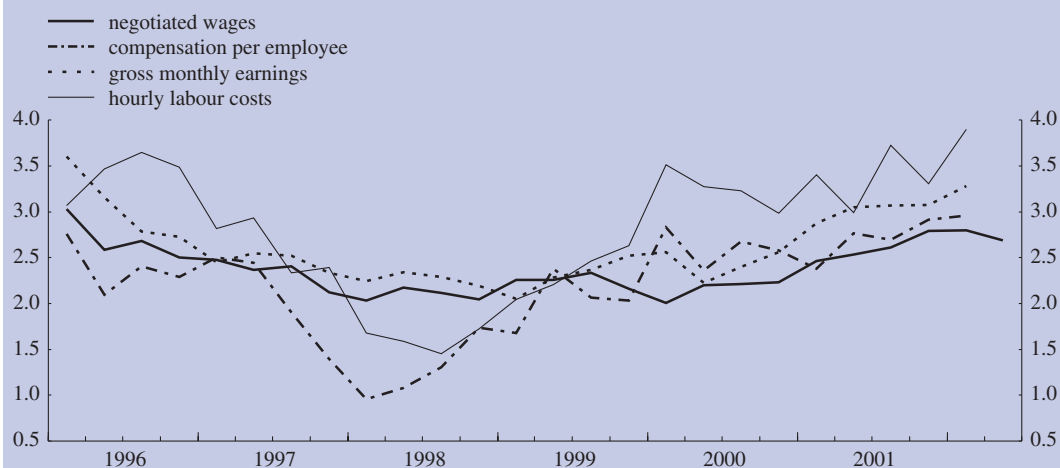
Given the caveats attached to its construction and the short available time span, caution should be exercised in drawing conclusions on the development of wage drift in the euro area on the basis of this indicator. At present, the euro area indicator of negotiated wages essentially provides useful early information which complements that of other wage and labour cost indicators. Indeed, it is the most timely of all. An estimate covering most of the euro area can be calculated around two and a half months after the end of the reference quarter. This is around one month earlier than the hourly labour cost index and two months prior to the release of national accounts data for compensation per employee. Given the early release, the indicator may anticipate possible turning points or changes in annual growth rates of labour costs.

In addition, despite the caveats noted above, developments in the euro area indicator of negotiated wages are broadly consistent with those of other wage and labour cost indicators and have confirmed the overall picture of wage developments in the euro area (see the chart). Unlike other available indicators, the new indicator is not affected by changes in social security contributions or working hours. Indeed, changes in the treatment of social security contributions in Italy distorted significantly compensation per employee and hourly labour costs in 1998, whereas hourly labour costs have been strongly influenced by the reduction of working hours in France, which gained momentum from late 1999. By contrast, the indicator of negotiated wages has shown a more stable development. At the same time, it shows a high degree of contemporaneous correlation with other indicators, in particular with compensation per employee and gross monthly earnings. More specifically, the index confirms the overall picture of relatively moderate and stable wage increases between 1997 and 2000,

with the average annual growth rate of negotiated wages remaining just above 2%. It also provides some indication of a slight increase since mid-2000, rising to, on average, 2.6% year on year in 2001, a general upward movement which has also been seen in other available indicators.

### Selected labour cost indicators for the euro area

(annual percentage changes)



Sources: Eurostat (monthly earnings; hourly labour costs); national data and ECB calculations (negotiated wages; compensation).