

### Box 3

#### LATEST DEVELOPMENTS IN SECTORAL WAGES AND LABOUR COSTS IN THE EURO AREA

In the context of monitoring wage and labour cost developments in the euro area, it is also useful to examine wage pressures at a sectoral level. To the extent that spill-overs across sectors exist, a sectoral approach may provide early signals of a possible build-up of economy-wide wage pressures, or at least a more precise picture of parts of the economy where second-round effects and/or more general wage pressures could be building up.

#### Developments in hourly labour costs and compensation per employee

There is a need to cross-check the information provided by any individual indicator of wage developments with that offered by other indicators in order to avoid drawing false conclusions from possibly misleading volatility in a particular series. In terms of sectoral developments, the two sets of series used for the euro area are the series on sectoral compensation per employee (CPE) and the sectoral hourly labour cost index (LCI). Differences between the CPE and LCI series are to be expected mainly due to the fact that the LCI is based on hourly data, while the CPE is calculated in terms of employees. As a result, changes in hours worked may drive a wedge between developments in the two series. For example, a reduction in the hours worked per employee would *ceteris paribus* imply a lower growth rate for CPE compared with the LCI.

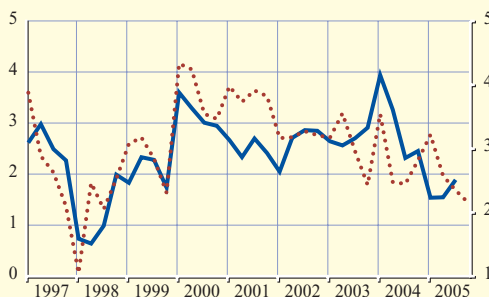
Charts A and B provide a comparison of the respective series for industry excluding construction (which accounted for 23.4% of the total compensation of employees in 2004) and for a sub-

#### Charts A-B Developments in compensation per employee and hourly labour cost

(annual percentage changes; quarterly data)

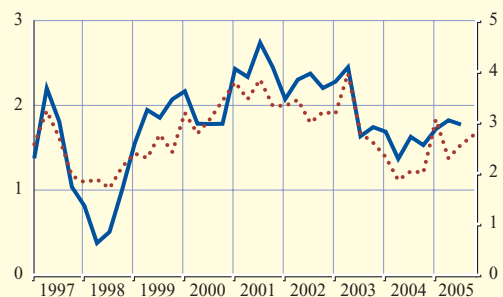
##### A Industry excluding construction

— compensation per employee (left-hand scale)  
..... hourly labour cost index (right-hand scale)



##### B Trade, hotels and transport services<sup>1)</sup>

— compensation per employee (left-hand scale)  
..... hourly labour cost index (right-hand scale)



Sources: Eurostat and ECB calculations.

1) Also includes repairs, restaurants, storage and communication.

sector of services, namely trade, hotels and transport (which accounted for 20.9% of the total compensation of employees in 2004). These groupings correspond to the highest levels of disaggregation available for the compensation per employee data.

The charts indicate that all series show some volatility, but that medium-term developments in the two indicators run broadly in parallel within a sector. In industry excluding construction (Chart A), there has been a deceleration in wage growth since 2000 that seems to have continued in recent quarters, possibly reflecting the strong competitive pressures in this sector from low-cost countries outside the euro area. For trade, hotels and transport services (Chart B), the series suggest a profile of decelerating wage growth from 2001 to mid-2004, and some correction since then. However, given the volatility of the series, it seems too early to speak of a pick-up here. As regards labour cost developments in the financial intermediation and real estate sector (Chart C), the smoother LCI series point to a levelling-off of the moderation in wage growth since 2004, while the CPE series for this sector suggests some rise in wage growth in the last few quarters. Once again, the volatility of the series suggests caution when assessing short-term developments.

#### A more disaggregated look at hourly labour cost trends

It is also worth looking at the further disaggregation offered by the LCI, although it should be borne in mind that more disaggregated data are more prone to volatility. Charts D, E and F provide further breakdowns of the series presented in Charts A, B and C above.

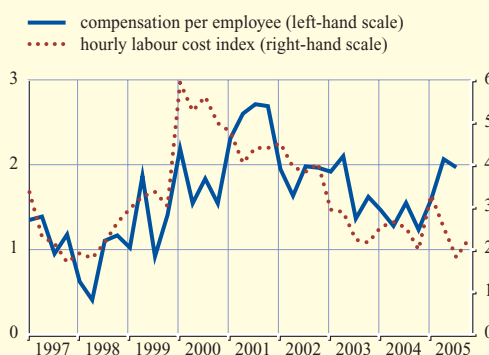
Within industry excluding construction (Chart D), labour cost growth in manufacturing has eased smoothly since 2001, while it appears to have picked up in the other two components of industry excluding construction (namely mining and quarrying, and electricity, gas and water supply) in recent quarters. The latter two sub-sectors, however, are much more volatile as well, and it is therefore more difficult to identify trends.

Turning to the group of market services presented in Chart E, the levelling-off and recent slight pick-up in the growth rate is common to trade and to hotels and restaurants, while transport, storage and communications seem to be bouncing back in terms of the labour cost growth rate, largely making up for the drop witnessed in 2003 and 2004. Finally, in the other two market services sub-sectors shown in Chart F – financial intermediation, and real estate, renting and business activities – labour cost growth appears to have levelled-off since 2004, while labour cost developments in financial intermediation services appear to be subject to higher volatility than in real estate, renting and business activities.

**Chart C Developments in compensation per employee and in hourly labour costs**

(annual percentage changes; quarterly data)

#### C Financial intermediation and real estate<sup>1)</sup>

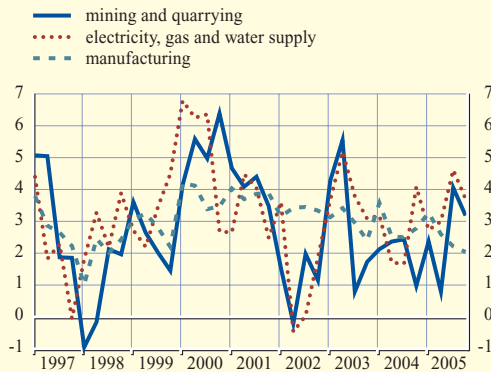


Sources: Eurostat and ECB calculations.  
1) Also includes renting and business activities.

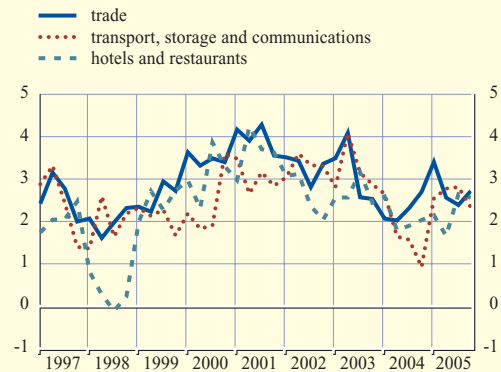
## Charts D-E The hourly labour cost series, broken down by individual economic activity

(annual percentage changes; quarterly data)

### D Breakdown of industry excluding construction



### E Breakdown of trade, hotels and transport services<sup>1)</sup>



Sources: Eurostat and ECB calculations.

1) Also includes repairs, restaurants, storage and communications.

## Unit labour costs at the sectoral level

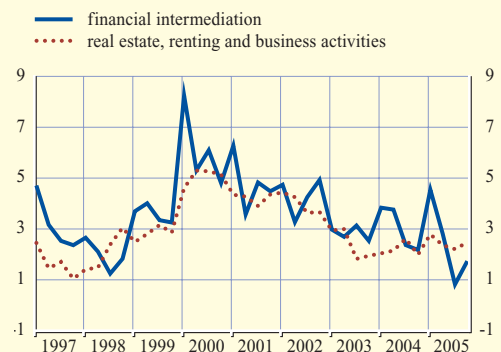
In order to assess inflationary pressures, developments in wage growth should be viewed in conjunction with developments in productivity, i.e. in terms of the development of unit labour costs (ULC). Charts G and H suggest that a general pattern of moderation in ULC growth since 2001 has been common to all the sectors shown. At a more disaggregated level, ULC growth has been consistently lower in industry excluding construction and in trade, hotels and transport services than in the rest of the economy. By contrast, ULC growth was more pronounced in the construction, financial intermediation and the non-market services sectors. In part, this reflects the different productivity performances of these sectors.<sup>1</sup>

As regards non-market services, a sector which is relatively insulated from the market forces of competition and globalisation, it is worth highlighting that a deceleration of ULC growth has been observed since 2003. While the largest component of this sector is public sector jobs, which are often characterised by a relatively strong position of trade unions during wage negotiations, the observed ULC growth deceleration in this sector points to some adjustment towards the market trend, possibly partly related to the relatively weak fiscal positions of several euro area countries.

## Chart F The hourly labour cost series, broken down by individual economic activity

(annual percentage changes; quarterly data)

### F Financial intermediation and real estate<sup>1)</sup>



Sources: Eurostat and ECB calculations.

1) Also includes renting and business activities.

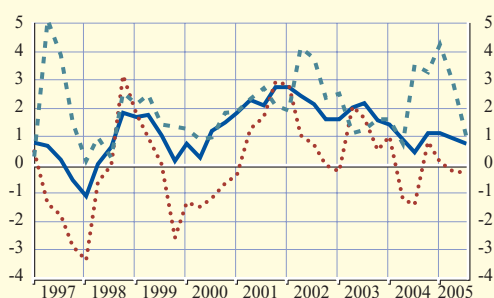
<sup>1</sup> For more evidence on sectoral productivity performances in the euro area services sector, see Box 4 of this issue of the Monthly Bulletin.

### Charts G-H Sectoral unit labour cost developments

(annual percentage changes; quarterly data)

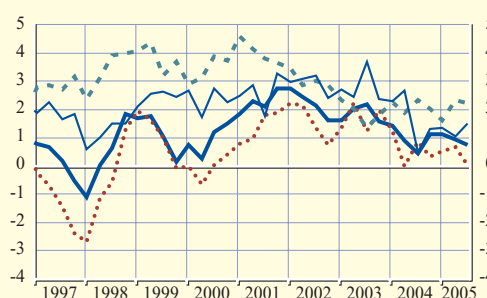
#### G Industry

— total  
 ..... industry excluding construction  
 - - - construction



#### H Services

— total  
 ..... trade, hotels and transport  
 - - - financial intermediation and real estate  
 — non-market services



Sources: Eurostat and ECB calculations.

Note: The categories shown correspond to the broad NACE 1.1 groupings: total (A-P), agriculture (A-B), industry excluding construction (C-E), construction (F), trade, hotels, transport (G-I), financial intermediation and real estate (J-K), non-market services (L-P).

In conclusion, the analysis above seems to be consistent with the view that thus far there has been no significant pick-up in euro area labour cost growth, nor any significant inflationary pressures building up in the euro area labour market. In some of the market services sectors, namely the trade, hotels and transport sectors and, to some extent, the financial intermediation and real estate sectors, wage growth picked up in 2005, but supportive productivity developments have kept ULC growth contained thus far. Finally, as the more disaggregated data are usually subject to greater volatility and revisions, it is still too early to assess whether the recent increase in wage growth in some sectors represents a temporary or a more persistent movement.