

## NEW STATISTICAL SERIES OF HOURS WORKED, PRODUCTIVITY AND LABOUR COSTS FOR THE EURO AREA

With the national accounts employment release on 15 March 2010, Eurostat, in cooperation with EU national statistics offices, introduced quarterly series for hours worked for the euro area. This is a considerable improvement in data availability and one which has been long awaited. The “Euro area statistics” section of the Monthly Bulletin has been adapted to show the new series.<sup>1</sup>

### Definition, coverage, timeliness and availability

The hours worked series are a mandatory part of the national accounts’ transmission programme and will be regularly published by Eurostat, together with the national accounts employment release, 75 days after the reference quarter.<sup>2</sup> These data follow the ESA 95 harmonised definitions for actual hours worked. In accordance with International Labour Organisation standards, “actual hours” refer to all hours spent at work, including overtime and time spent inactively waiting due to a temporary lack of work or machinery breakdowns, but excluding all hours paid and not worked, such as holidays or sick leave.

The hours worked data are available for the whole economy on a quarterly basis from the first quarter of 2000. The euro area series are derived with 95% country coverage, excluding data for Greece, Luxembourg, Malta and partially Belgium (only employees’ data are available). In addition, these data are available for the main economic activity breakdowns<sup>3</sup> and by employment status (employees or self-employed).

### Derived indicators based on hours worked

The new series allow the compilation of estimates of hourly compensation and hourly labour productivity. The data on hourly compensation are produced in addition to the existing labour cost index (LCI) published by Eurostat, which is also available on an hourly basis. In terms of the main differences between these series, hourly compensation data cover the whole economy, while the LCI data currently do not cover agriculture, public administration, education, health and other services not elsewhere classified. As a result, the two indicators are likely to diverge when developments in these sectors differ from those in the rest of the economy. One such example is the stronger (upward) impact on the LCI than on the aggregate (whole economy) compensation per hour resulting from the reduction in hours worked during the recent recession, which mainly took place in the industrial sector.<sup>4</sup> However, while the LCI’s timeliness is similar to that of the hours worked and total compensation data, the LCI release also provides early information on sectoral developments (NACE Rev. 2 sections<sup>5</sup>) and on the economic activity components (wages and salaries, employers’ social contributions). The activity breakdown of compensation

1 See Tables 5.1.4, 5.3.2 and 5.3.3 in the “Euro area statistics” section.

2 Regulation (EC) No 1392/2007 of the European Parliament and of the Council of 13 November 2007.

3 Additional detailed activity breakdowns at the level of NACE Rev. 2 sections are available at annual frequency.

4 See Tables 5.1.4 and 5.1.5 in the “Euro area statistics” section.

5 Individual sections for Industry (NACE Rev. 2 sections B to E); Construction (NACE Rev. 2 section F); and Services (NACE Rev. 2 sections G to N).

from national accounts and therefore the respective hourly compensation breakdown only become available at least two weeks later.

Combining the information on hourly compensation and hourly productivity allows for a more detailed decomposition of unit labour costs than the estimates permitted hitherto on the basis of productivity and compensation per head.<sup>6</sup> Such analysis is especially interesting at the current juncture and in assessing labour market developments over the recent recession. The table shows recent developments in compensation and productivity on both a per head and a per hour basis, as well as developments in hours worked per head, all calculated for the total economy. Reflecting the sharp drop in hours worked per head, which started in the fourth quarter of 2008, productivity fell more sharply on a headcount basis than per hour worked. At the same time, growth in compensation per head slowed down due to the cut in working hours, while growth in compensation per hour reacted with a longer lag to the economic slowdown.<sup>7</sup> The most recent data suggest that reductions in hours worked per head are beginning to reverse, supporting the rebound in productivity per head.

Overall, the new series offer a clear improvement for understanding labour market developments and complement the range of relevant indicators. In the context of its economic analysis, the ECB monitors the full set of labour market indicators, as a means of cross-checking all available relevant information with each indicator offering its own advantages and shedding light on different aspects of employment, wage and productivity developments.

6 The two computations of annual unit labour cost growth, based on the per head and the per hour definitions, should, in principle, yield the same result, as they reflect developments in the costs of producing one unit of output. However, due to the mixed use of data for employees and total employment in both cases (as also shown in the table), small differences may occur. These are of about a 0.1 percentage point magnitude and are thus considered insignificant. For reasons of continuity, the ECB will continue to report unit labour cost developments based on the per head definition.

7 For more details on labour market adjustments in the euro area during the recent crisis, see the article entitled "Labour market adjustments to the recession in the euro area" in this issue of the Monthly Bulletin and Box 8 entitled "Wage developments in the euro area and the United States during the recent economic downturn: a comparative analysis" in the May 2010 issue of the Monthly Bulletin.

### Labour cost indicators: headcount and hourly developments compared

(total economy; annual percentage changes)

	2008 Q1	2008 Q2	2008 Q3	2008 Q4	2009 Q1	2009 Q2	2009 Q3	2009 Q4	2010 Q1
Compensation per head (employees)	3.2	3.2	3.4	2.8	1.8	1.4	1.5	1.3	1.5
Productivity per head (total employment)	0.7	0.2	-0.2	-1.8	-3.9	-3.1	-1.9	0.0	1.9
Compensation per hour (employees)	3.0	2.8	3.3	3.2	3.7	3.5	3.1	2.1	0.7
Productivity per hour (total employment)	0.5	0.0	-0.1	-1.4	-2.1	-1.4	-0.6	0.5	1.3
Hours worked per head (employees)	0.2	0.4	0.1	-0.4	-1.9	-2.0	-1.6	-0.7	0.7
Unit labour costs	2.5	3.0	3.6	4.7	5.9	4.7	3.5	1.3	-0.5

Sources: Eurostat and ECB calculations.