

Box 5

RECENT DEVELOPMENTS IN HOURS WORKED PER EMPLOYEE

Developments in actual hours worked per employee play an important role in the assessment of labour cost indicators. For instance, stable growth in compensation per employee may sometimes conceal a rise in costs, if employees – owing to a temporary lack of demand – are not working all the hours they are paid for.¹ At the same time, a decline in growth in compensation per employee may falsely indicate a decrease in costs if it only reflects an increase in the number of employees moving from full-time to part-time work. Against this background, this box reviews the impact of hours worked on growth in compensation per hour and per employee, and discusses the nature of recent developments in hours worked in the euro area.

Actual hours worked and growth in compensation per hour

In the period since 2008 changes in actual hours worked per employee have given rise to visible differences between growth in compensation per employee and growth in compensation per

¹ In this respect, hours worked is an important indicator of the degree of utilisation of paid labour. It is defined as all hours spent at work, i.e. it excludes, for instance, paid absences owing to annual leave or sick leave, but includes overtime or inactive time spent at the place of work owing to a temporary lack of work or machinery breakdowns. According to this definition, hours worked captures underutilisation of labour if employees are on a specific short-time working scheme and therefore do not turn up to work, but not if they are idle at their place of work.

hour. The breakdown in Chart A shows that growth in compensation per hour continued to rise during the 2008-09 recession, as a lower contribution from compensation per employee was accompanied by a rising contribution from actual hours worked per employee, i.e. a sharp fall in hours. A similar, albeit less pronounced, development has been observed during the most recent economic contraction that started at the end of 2011. By contrast, during the economic recovery in 2010 growth in compensation per hour was more moderate than that in compensation per employee, as actual hours worked per employee increased during that period. In the period since mid-2008 the average annual rate of growth in compensation per employee has, on balance, been about half a percentage point lower than that in compensation per hour.

The nature of changes in hours worked

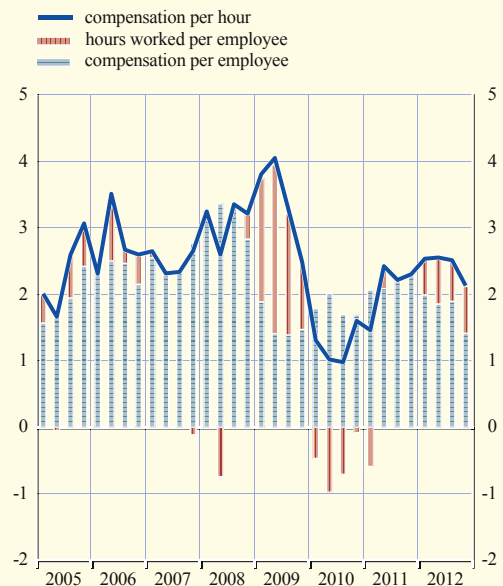
Cyclical movements in actual hours worked per employee can reflect factors such as overtime (during a boom period) and short-time working schemes (during a recession). However, when identifying recent movements in national account statistics, the downward trend in hours worked over the 2000s needs to be taken into account.

Data from labour force surveys suggest that, in the euro area as a whole, usual (typically contractually agreed) working hours per employee has declined by more than one hour per week since 2000, to stand at 36.8 hours in 2012 (see Chart B). In contrast to actual hours worked, usual working hours includes elements such as annual leave and sick leave and therefore exceeds actual hours worked. At the same time, it does not include elements such as overtime or absences from work as a result of short-time working schemes. Developments in usual working hours per employee reflect developments in usual working hours for full-time and part-time employees, as well as in the percentage of part-time employees (see Chart C). Most of the decline in usual working hours per employee reflects a gradual rise in the percentage of part-time employees, as usual working hours has remained much more stable for both full-time and part-time employees.

The comparison in Chart B shows that the gap between actual hours worked and usual working hours widens during periods of economic weakness and narrows during periods of economic recovery. This suggests that the sharp fall in actual hours worked during the 2008-09 recession reflects mainly cyclical factors such as the use of short-time working schemes and a reduction in the amount of overtime. Only a small part of the decline in actual hours worked during the 2008-09 recession can be attributed to the simultaneous downward movement in usual working hours. By contrast, the renewed decline in actual hours worked during the recent economic contraction appears, thus far, to be almost fully attributable to the decline in usual

Chart A Breakdown of compensation per hour in the euro area

(annual percentage changes; percentage point contributions)

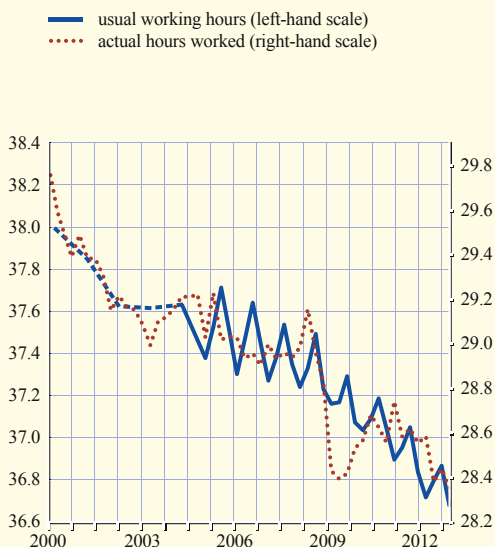


Sources: Eurostat and ECB calculations.

Note: Positive (negative) contributions from hours worked per employee to growth in compensation per hour reflect year-on-year declines (increases) in hours worked per employee.

Chart B Actual hours worked and usual working hours in the euro area

(hours per week and employee)

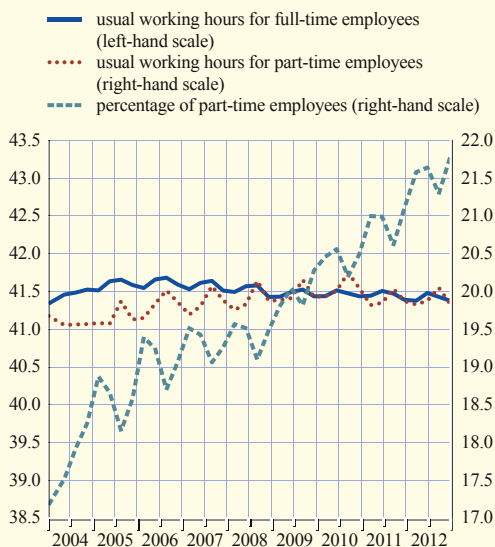


Sources: Eurostat and ECB calculations.

Notes: Usual working hours typically reflects the contractually agreed working week and includes hours that are paid but not worked, such as sick leave or annual leave. For the period prior to 2004, data on usual working hours are only available for the June rounds of the labour force survey. This is indicated by the dotted blue line.

Chart C Usual working hours by employment status in the euro area

(hours per week; percentages)



Sources: Eurostat and ECB calculations.

working hours. For the period since mid-2008 as a whole, the data suggest that roughly half of the decline in actual hours worked has been more cyclical in nature, while the other half is due to a decline in usual working hours.²

Overall, the strong movements in actual hours worked per employee since 2008 suggest that, when assessing aggregate labour cost developments, a focus on growth in compensation per employee can be misleading. Instead, there should be a greater focus on growth in compensation per hour.³

² To the extent that the decline in usual working hours per employee is due to a rise in the percentage of part-time employees, it may currently also reflect some cyclical movement, if, owing to the protracted period of economic weakness in a number of euro area countries, part-time employment reflects a temporary lack of full-time employment opportunities. For a distinction between voluntary and involuntary part-time employment, see the box entitled “Three indicators to complement the standard definition of employment and unemployment” in this issue of the Monthly Bulletin.

³ However, it should be noted that no labour cost indicator is free of caveats. For example, developments in compensation per employee or per hour may not be fully representative of firms’ labour costs at a particular point in time, if, for instance, governments provide employment subsidies for temporary reductions in working time when jobs are at risk; or if firms operate time accounts that balance the costs of short-time working schemes and overtime over longer horizons. Similarly, shifts between full-time and part-time employment may not be cost-neutral if they involve fixed labour costs per person or are associated with changes in average productivity.