

14 August 2017

Labour Cost Index 2nd quarter of 2017

Labour Costs increased by 2.9% when compared to the same quarter of 2016

The Labour Cost Index (LCI) working days adjusted increased by 2.9% in the 2nd quarter of 2017, compared with the same period in 2016. In the previous quarter, it was recorded a year-on-year increase of 3.4%.

The two main labour cost components are wage costs and other costs (per hour actually worked). The wage costs increased by 2.8% and the other costs raised by 3.5%.

The LCI year-on-year rate of change was also a result of an increase of 1.4% in the average cost per employee and a decrease of 1.6% in the number of hours actually worked per employee. The increase of the first component was common to all activities, whereas the decrease in the last component was mainly due to the behaviour of economic activities that belong to the public sector.

1. Labour Cost Index and components

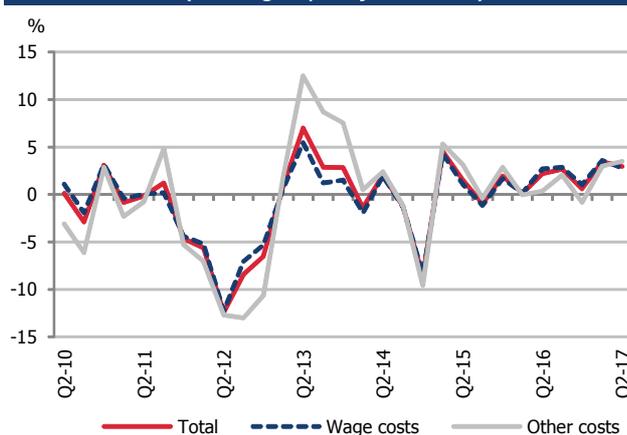
The labour costs incurred by the employer include *wage costs* and *other labour costs* of their responsibility (see the Technical note on page 7). Therefore, their evolution depends on the development of each of these components.

The labour Cost Index (LCI) is a short term indicator, which, in addition to the labour costs incurred by the employer, considers the number of hours actually worked per employee, measuring the evolution of the *average labour costs per hour actually worked*.

In the 2nd quarter of 2017¹, the LCI grew 2.9% due to increases of 2.8% in wage costs and 3.5% in other labour costs (Figure 1).

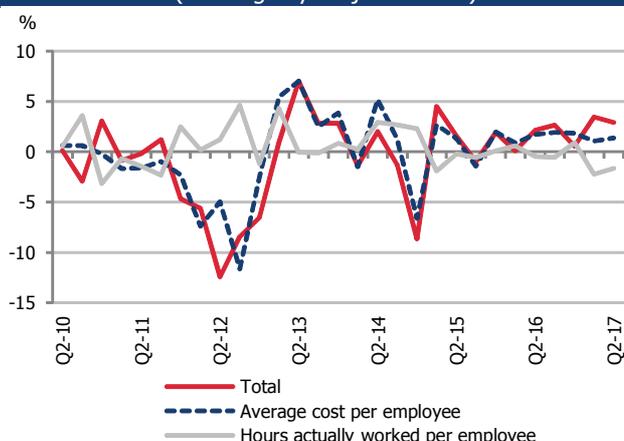
For that evolution contributed the increase of 1.4% in the average cost per employee and the decrease of 1.6% in the number of hours actually worked per employee (Figure 2).

Figure 1: LCI year-on-year rate of change
(working days adjusted data)



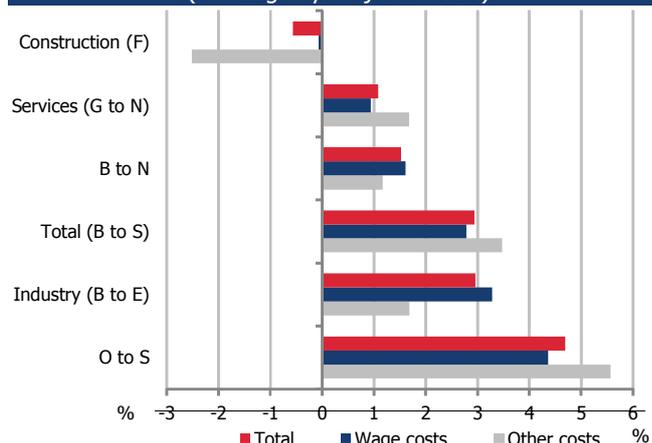
¹ The data analysed in this Press Release are working days adjusted. The raw data are available in the annex tables and at the Official Statistics Portal. Unless otherwise stated, the rates of change mentioned in this Press Release are year-on-year rates of change (from the same quarter of the previous year).

Figure 2: LCI year-on-year rate of change (working days adjusted data)



- the number of hours actually worked per employee increased by 0.6% (Figure 4).

Figure 3: LCI year-on-year rate of change by economic activity (NACE-Rev. 2) in the 2nd quarter of 2017 (working days adjusted data)



2. Sectors of economic activity

For the subgroup of economic activities from sections B to N² (which include, in general, the business economy or the private sector of the economy), the LCI increased by 1.5%.

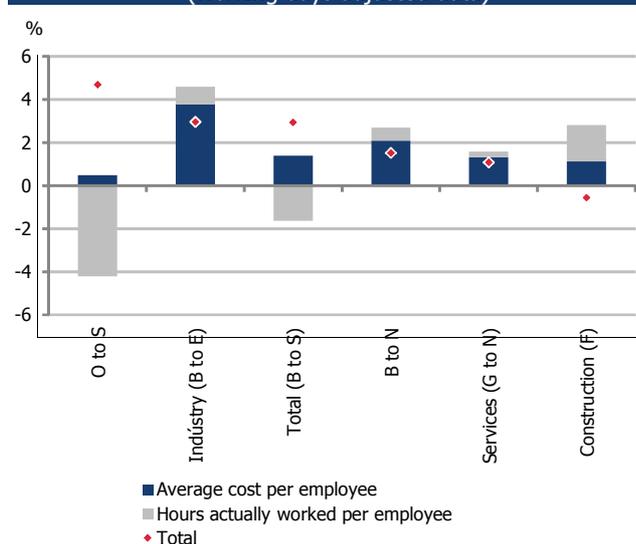
In the remaining economic activities (sections O to S), which include mostly (but not exclusively) the non-business economy of the public sector economy, it was recorded a year-on-year increase of 4.7%.

Sections B to N

In the 2nd quarter of 2017, in the activities from sections B to N, compared to the same quarter of 2016:

- the wage costs increased by 1.6% and the other labour costs increased by 1.2% (Figure 3);
- the average labour cost per employee increased by 2.1% (Figure 4);

Figure 4: LCI year-on-year rate of change by economic activity (NACE-Rev. 2) in the 2nd quarter of 2017 (working days adjusted data)



Among the activities from sections B to N, the LCI increased by 3.0% in Industry (sections B to E) and by 1.1% in Services (G to N), and decreased by 0.6% in Construction (section F).

² The activities' designation is available in the annex tables.

In Industry (3.0%):

- the wage costs increased by 3.3% and the other labour costs increased by 1.7%;
- the average cost per employee increased by 3.8%;
- the number of hours actually worked per employee increased by 0.8%.

In Construction (-0.6%):

- the wage costs decreased by 0.1% and the other labour costs decreased by 2.5%;
- the average cost per employee increased by 1.1%;
- the number of hours actually worked per employee increased by 1.7%.

In Services (1.1%):

- the wage costs increased by 0.9% and the other labour costs increased by 1.7%;
- the average cost per employee increased by 1.3%;
- the number of hours actually worked per employee increased by 0.3%.

Sections O to S

In the activities from sections O to S, the LCI recorded an increase of 4.7%. In these activities:

- the wage costs increased by 4.4% and the other labour costs increased by 5.6%;
- the average cost per employee increased by 0.5%, which was partially explained by the following two opposite sign effects: 1) the full reversion of the wage reductions (which took place gradually from the 4th quarter of 2015 to the 4th quarter of 2016), which resulted in a positive contribution to that increase; 2) the

change introduced in the payment of Christmas bonuses (in 2017, 50% is paid monthly and the remaining in November; in 2016, the bonuses were totally paid monthly), leading to a negative contribution to the abovementioned increase;

- the number of hours actually worked per employee decreased by 4.2%, which was explained, among others, by the 40 weekly normal hours that were in place till the end of June 2016.

3. Comparison with the European Union

The latest available information by country on the LCI year-on-year change reports to the 1st quarter of 2017 and was published by Eurostat in the 16th of June of 2017 (Figure 5).

The LCI year-on-year rate of change for the European Union (28 countries) was 1.7%, in the 1st quarter of 2017.

In seventeen countries, the LCI rates of change were larger than the European Union average, with Romania recording the highest LCI increase (of 17.2%).

Portugal registered a year-on-year increase in the LCI of 2.6%³, the same as in Slovenia and Malta.

Austria recorded an increase equal to that of the European Union (1.7%).

In seven countries, the LCI recorded increases, albeit lower than the European Union average, ranging from 0.1%, in Spain, to 1.5%, in the United Kingdom.

³ The increase for Portugal was now revised into 3.4% (as described in the Technical note, page 8).

Three countries recorded year-on-year decreases in the LCI: Finland (2.7%), Luxembourg and the Netherlands (0.1%).

Figure 5: LCI year-on-year rate of change by European Union Country (28) in the 1st quarter of 2017 (working days adjusted data)

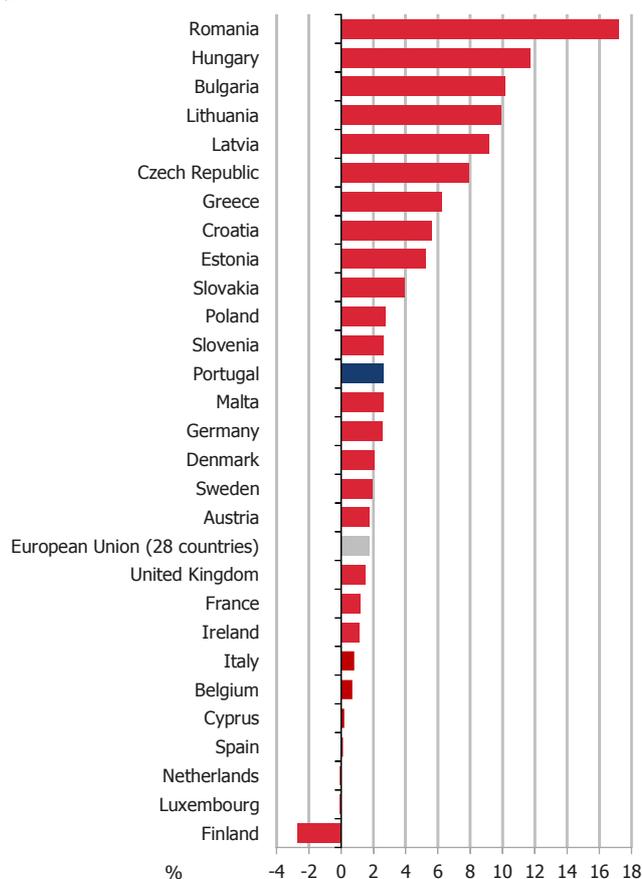
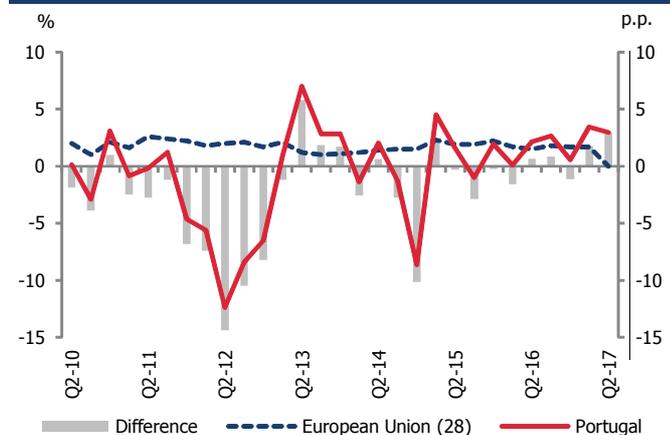


Figure 6 shows the developments of the LCI rates of change in Portugal and in the European Union in the last seven years (from the 2nd quarter of 2010 to the 2nd quarter of 2017).

Its analysis shows that, for most of the analysed period, the LCI in Portugal registered lower changes than those of the European Union.

Figure 6: LCI year-on-year rate of change in the European Union (28) and in Portugal (working day adjusted data)



After the substantial decreases recorded in 2011, 2012 and 2014, in 2016 the LCI observed always year-on-year increases, of 0.1% in the 1st quarter, 2.1% in the 2nd quarter, 2.6% in the 3rd quarter and 0.6% in the 4th quarter. In the 1st and the 4th quarter, the increases were lower than the European Union average, with differences of -1.6 and -1.1 percentage points (p.p.), respectively. In the 2nd and 3rd quarter, the increases were larger than the European Union average (differences of 0.6 p.p. and 0.8 p.p., respectively).

In the 1st quarter of 2017, the Portuguese LCI recorded a year-on-year rate of change of 2.6%⁴, 0.9 p.p. above the average of the European Union.

As mentioned, in the 2nd quarter of 2017, the year-on-year rate of change of the Portuguese LCI stood at 2.9%.

⁴ Idem footnote 3.

**Table 1: Labour Cost Index (LCI) year-on-year rate of change by component and economic activity (NACE-Rev. 2)
(working days adjusted data)**

Unit: %

Economic activity (sections from Nace-Rev. 2)	Q2-2016			Q3-2016			Q4-2016			Q1-2017			Q2-2017		
	Total	Wage costs	Other costs												
Total (B to S)	2.1	2.7	0.4	2.6	2.8	2.0	0.6	1.0	-0.8	3.4	3.6	3.0	2.9	2.8	3.5
B to N	1.5	1.9	0.2	-0.2	-0.1	-0.6	-1.0	-0.5	-3.0	4.1	4.0	4.6	1.5	1.6	1.2
Industry (B to E)	3.0	3.2	2.3	0.2	0.2	0.4	-0.4	-0.2	-0.8	4.7	4.5	5.4	3.0	3.3	1.7
Construction (F)	0.5	1.1	-1.7	-0.1	0.5	-2.3	-1.5	-0.9	-3.9	3.9	4.2	3.0	-0.6	-0.1	-2.5
Services (G to N)	0.9	1.3	-0.7	-0.4	-0.4	-0.8	-1.3	-0.6	-4.1	3.8	3.6	4.4	1.1	0.9	1.7
O to S	2.9	3.8	0.5	6.1	6.8	4.5	3.0	3.5	1.8	2.5	3.0	1.3	4.7	4.4	5.6

**Table 2: Labour Cost Index (LCI) year-on-year rate of change by component and economic activity (NACE-Rev. 2)
(non working days adjusted data)**

Unit: %

Economic activity (sections from Nace-Rev. 2)	Q2-2016			Q3-2016			Q4-2016			Q1-2017			Q2-2017		
	Total	Wage costs	Other costs												
Total (B to S)	2.1	2.7	0.4	4.2	4.4	3.6	5.5	6.0	4.0	0.2	0.4	-0.2	4.6	4.5	5.2
B to N	1.5	1.9	0.2	1.4	1.5	1.0	3.9	4.4	1.8	0.9	0.7	1.3	3.2	3.3	2.8
Industry (B to E)	3.0	3.2	2.3	1.8	1.7	1.9	4.5	4.7	4.1	1.4	1.3	2.1	4.6	5.0	3.4
Construction (F)	0.5	1.1	-1.7	1.5	2.1	-0.8	3.3	4.0	0.8	0.7	0.9	-0.2	1.1	1.6	-0.9
Services (G to N)	0.9	1.3	-0.7	1.1	1.2	0.7	3.5	4.3	0.6	0.5	0.4	1.2	2.7	2.6	3.3
O to S	2.9	3.8	0.5	7.8	8.4	6.1	8.1	8.6	6.8	-0.7	-0.2	-1.8	6.4	6.1	7.3

Source: INE, Labour Cost Index - 2nd quarter of 2017.

Sections from Nace-Rev. 2

- | | |
|---|--|
| B - Mining and quarrying | K - Financial and insurance activities |
| C - Manufacturing | L - Real estate activities |
| D - Electricity, gas, steam and air conditions supply | M - Professional, scientific and technical activities |
| E - Water supply, sewerage, | N - Administrative and support service activities |
| F - Construction | O - Public administration, defence, and compulsory social security |
| G - Wholesale and retail trade; | P - Education |
| H - Transport and storage | Q - Human health and social work activities |
| I - Accommodation and food service activities | R - Arts, entertainment and recreation |
| J - Information and communication | S - Other service activities |

**Table 3: Labour Cost Index (LCI) year-on-year rate of change by source of variation and economic activity (NACE-Rev. 2)
(working days adjusted data)**

Unit: %

Economic activity (sections from Nace-Rev. 2)	Q2-2016			Q3-2016			Q4-2016			Q1-2017			Q2-2017		
	Total	Average cost per employee	Hours actually worked per employee	Total	Average cost per employee	Hours actually worked per employee	Total	Average cost per employee	Hours actually worked per employee	Total	Average cost per employee	Hours actually worked per employee	Total	Average cost per employee	Hours actually worked per employee
Total (B to S)	2.1	1.7	-0.5	2.6	1.9	-0.6	0.6	1.8	0.9	3.4	1.1	-2.2	2.9	1.4	-1.6
B to N	1.5	2.0	0.4	-0.2	1.5	1.6	-1.0	1.5	2.5	4.1	1.2	-2.8	1.5	2.1	0.6
Industry (B to E)	3.0	3.0	0.0	0.2	2.0	1.8	-0.4	2.4	2.8	4.7	1.6	-3.0	3.0	3.8	0.8
Construction (F)	0.5	1.2	0.7	-0.1	1.3	1.3	-1.5	0.4	1.9	3.9	1.3	-2.6	-0.6	1.1	1.7
Services (G to N)	0.9	1.6	0.6	-0.4	1.1	1.5	-1.3	1.1	2.4	3.8	0.9	-2.8	1.1	1.3	0.3
O to S	2.9	1.3	-1.5	6.1	2.6	-3.4	3.0	2.4	-0.9	2.5	0.9	-1.5	4.7	0.5	-4.2

**Table 4: Labour Cost Index (LCI) year-on-year rate of change by source of variation and economic activity (NACE-Rev. 2)
(non working days adjusted data)**

Unit: %

Economic activity (sections from Nace-Rev. 2)	Q2-2016			Q3-2016			Q4-2016			Q1-2017			Q2-2017		
	Total	Average cost per employee	Hours actually worked per employee	Total	Average cost per employee	Hours actually worked per employee	Total	Average cost per employee	Hours actually worked per employee	Total	Average cost per employee	Hours actually worked per employee	Total	Average cost per employee	Hours actually worked per employee
Total (B to S)	2.1	1.7	-0.5	4.2	1.9	-2.1	5.5	1.8	-3.8	0.2	1.1	0.9	4.6	1.4	-3.2
B to N	1.5	2.0	0.4	1.4	1.5	0.1	3.9	1.5	-2.3	0.9	1.2	0.3	3.2	2.1	-1.0
Industry (B to E)	3.0	3.0	0.0	1.8	2.0	0.3	4.5	2.4	-2.0	1.4	1.6	0.1	4.6	3.8	-0.8
Construction (F)	0.5	1.2	0.7	1.5	1.3	-0.2	3.3	0.4	-2.8	0.7	1.3	0.6	1.1	1.1	0.1
Services (G to N)	0.9	1.6	0.6	1.1	1.1	0.0	3.5	1.1	-2.4	0.5	0.9	0.3	2.7	1.3	-1.4
O to S	2.9	1.3	-1.5	7.8	2.6	-4.8	8.1	2.4	-5.5	-0.7	0.9	1.7	6.4	0.5	-5.8

Source: INE, Labour Cost Index - 2nd quarter of 2017.

Sections from Nace-Rev. 2

- B - Mining and quarrying
- C - Manufacturing
- D - Electricity, gas, steam and air conditions supply
- E - Water supply, sewerage,
- F - Construction
- G - Wholesale and retail trade;
- H - Transport and storage
- I - Accommodation and food service activities
- J - Information and communication
- K - Financial and insurance activities
- L - Real estate activities
- M - Professional, scientific and technical activities
- N - Administrative and support service activities
- O - Public administration, defence, and compulsory social security
- P - Education
- Q - Human health and social work activities
- R - Arts, entertainment and recreation
- S - Other service activities

TECHNICAL NOTE

The Labour Cost Index (LCI) is a short-term indicator that measures quarterly developments in labour costs per hour actually worked (hourly average cost) incurred by the employer. The index is calculated by dividing the average cost per employee by the number of hours actually worked per employee. For this reason, the evolution of these two variables (labour costs and hours worked) contributed to explaining their developments.

Labour costs incurred by the employer include the following:

Wage costs:

- Base wage
- Regular bonuses and allowances
- Irregular bonuses and allowances (holiday bonus, Christmas bonus, end-of-year bonuses/distribution of profits, other irregular bonuses and allowances)
- Payment of overtime
- Payment in kind

Other costs:

- Severance payment
- Employers' legal costs (social security contributions, insurance against accidents and occupational disease)
- Collectively agreed, contractual and voluntary costs (supplementary pension/invalidity benefit, health insurance, life/personal accident insurance, and social benefits paid directly to employees in case of absence on account of sickness)

The LCI is a statistical operation held on a quarterly basis through a sampling survey. Data collection with local units is carried out through an electronic questionnaire (Computer Assisted Web Interviewing - CAWI). By economic activity, the LCI covers Sections B to S of NACE-Rev. 2.

Data on public administration [Sections O (Public administration and defence; compulsory social security) and the public part of Sections P (Education) and Q (Human health and social work activities)] are not obtained through direct collection. These data are estimated by Statistics Portugal from data obtained, among other sources, from the Directorate-General of Budget of the Ministry of Finance. These data are subject to revisions.

The LCI is Laspeyres index.

In order to obtain more information about the LCI calculation, we recommend the consultation of the [methodological note](#) (only in Portuguese) for this statistical operation.

Information selected for publication

This press release analyses changes in the total LCI and respective items: (1) wage costs versus other costs; and (2) average costs per employee versus number of hours actually worked per employee.

Given that the LCI is seasonal, data are presented as year-on-year rates of change, which compare index levels in the current quarter with those for the same quarter a year earlier. The series of index figures are available on the Official Statistics Website.

In order to be in line with the series published by Eurostat, which has changed the LCI reference year from 2008 to 2012, the indices published started to have, since the LCI press release for the 1st quarter of 2015, the year 2012 as the reference year (2012=100). The back series of the indices were recalculated for the period from the 1st quarter of 2008 to the 4th quarter of 2014.

With the purpose of eliminating the effects resulting from different numbers of working days in the same quarters of different years (Easter and other movable feasts), the series analysed are adjusted for working days. Raw series, not adjusted for working day effects, are available in the annex tables and on the Official Statistics Portal.

(to be continued)

(continuation)

Revisions

The data published in this release concerning the last quarters are subject to revisions. These revisions result, on one side, from the inclusion of information for the last quarter sent lately by some establishments of the LCI sample and, on the other side, from updates in the data for the last quarters obtained from the Directorate-General of Budget.

The impact of those revisions, measured by the difference between the year-on-year rates of change published today and those published for the 1st quarter of 2017 in the Press Release "Labour Cost Index – 1st quarter of 2017", is available in the following table:

Revision of the LCI year-on-year rates of change published in the 1st quarter of 2017

Unit: p.p.

Economic activity (sections from Nace Rev. 2)	Total	Component of the index		Source of variation of the index		Total	Component of the index		Source of variation of the index	
		Wage costs	Other costs	Average cost per employee	Hours actually worked per employee		Wage costs	Other costs	Average cost per employee	Hours actually worked per employee
Total (B to S)	0.8	0.6	1.6	0.9	0.0	0.8	0.6	1.5	0.9	0.0
B to N	0.2	0.2	0.1	0.2	0.1	0.2	0.2	0.0	0.2	0.0
Industry (B to E)	0.3	0.3	0.3	0.3	-0.1	0.3	0.4	0.3	0.3	-0.1
Construction (F)	0.6	0.8	0.3	0.6	-0.1	0.7	0.7	0.3	0.6	0.0
Services (G to N)	0.0	0.0	-0.2	0.1	0.1	0.0	0.0	-0.1	0.1	0.1
O to S	1.7	1.2	3.0	1.7	0.0	1.6	1.2	3.0	1.7	0.0

Due to rounding, the sum of the components may not equal to the corresponding totals.

This press release was prepared with the data received up to the 1th of August of 2017. The response rate was 91.9%.

Next Press Release: 14 November 2017.