

13 August 2020

## Labour Cost Index 2<sup>nd</sup> quarter of 2020

**In the 2<sup>nd</sup> quarter of 2020, the Labour Cost Index increased by 13.5% when compared to the same quarter in 2019, as a result of the strong reduction in the hours worked**

The Labour Cost Index (LCI) working days adjusted increased by 13.5% in the 1<sup>st</sup> quarter of 2020, compared to the same period in 2019. In the previous quarter the rate of change had been 7.7%.

This development was a result of the combined effect of the decrease of 0.7% in the average cost per employee with the reduction of 12.2% in the number of hours actually worked per employee. The decrease of the latter component took place in all the economic activities analysed, in line with results recently released within the scope of the Employment Statistics. The decrease of the average cost per employee was observed in all the economic activities with exception to the Public Administration, where it increased 2.6%.

The two main labour cost components per hour actually worked – wage costs and other costs – increased by 15.2% and by 5.4%, respectively, compared to the same period of the previous year.

### 1. Labour Cost Index and components

In the 2<sup>nd</sup> quarter of 2020, the LCI increased by 13.5%. The wage costs increased by 15.2% and the other costs increased by 5.4% (Figure 1).<sup>1</sup>

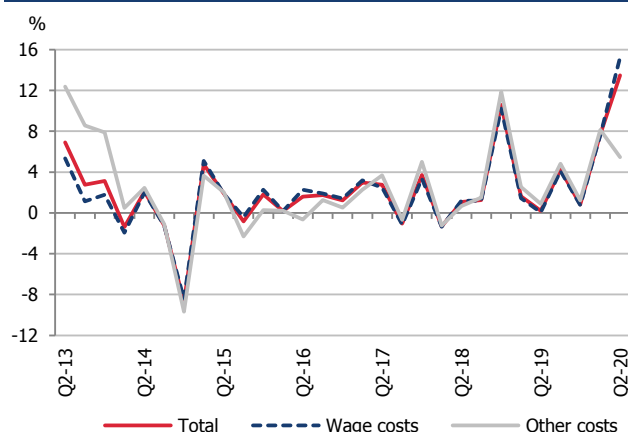
These rates of change were significantly higher than those observed in the previous quarter (7.7%, 7.6% and 8.1%, respectively), with exception to the other costs.

This acceleration was mostly due to the strong reduction of the hours actually worked per employee in the 2<sup>nd</sup> quarter of 2020, accentuating the decrease already observed in the previous quarter (Figure 2).

The number of hours actually worked per employee decreased by 12.2% (it had decreased by 3.9% in the previous quarter) and the average cost per employee decreased by 0.7% (it had increased by 3.4% in the

preceding quarter). The reduction of the hours worked was strongly influenced by the implementation of the simplified layoff regime.

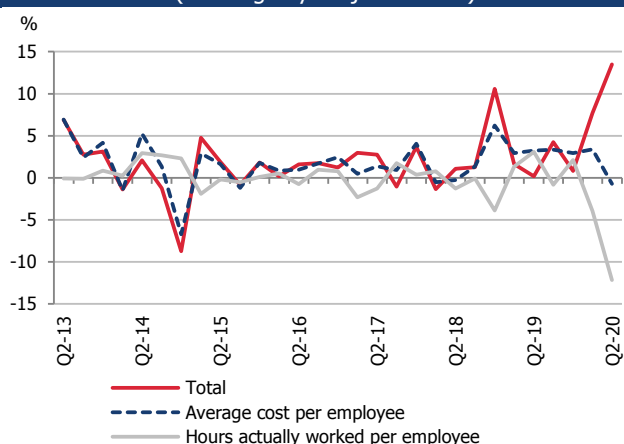
**Figure 1: LCI year-on-year rate of change**  
(working days adjusted data)



<sup>1</sup> 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.

The year-on-year rates of changes of the total costs and the wage costs were larger than the observed for the other costs due to the decrease or the exemption in the payment of social contributions by the enterprises that joined the simplified layoff regime (costs included in the "other costs" component).

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



The growth in wage costs (average cost per hour actually worked) was explained by the combined effect of the increase of the average cost per employee and the significant drop in the hours actually worked per employee. Excluding in the activities from sections B to E<sup>2</sup> (Industry), the wage costs (average cost per employee) increased, essentially due to the rise in the base wage and in the holiday bonus.

The growth observed in other costs (average cost per hour actually worked) was a result of the decrease of the average cost per employee (due to the reduction or exemption in the payment of employers' social contributions) and of the hours actually worked per employee.

<sup>2</sup> The activities' designation is available in the annex tables.

## 2. Sectors of economic activity

For the subgroup of economic activities from sections B to N (which include, in general, the business economy or the private sector of the economy), the LCI increased by 10.3%.

In the remaining economic activities (sections O to S), which include mostly (but not exclusively) the non-business economy of the public sector of the economy, the LCI recorded an annual increase of 18.7%.

### Sections B to N

In the 2<sup>nd</sup> quarter of 2020, in the activities from sections B to N:

- the wage costs increased by 12,9% and the other labour costs decreased by 2.0% (Figure 3);
- the average labour cost per employee decreased by 2.7% (Figure 4);
- the number of hours actually worked per employee decreased by 11.4% (Figure 4).

Among the activities from sections B to N, the LCI increased by 13.2% in industry (sections B to E), by 4.7% in construction (section F), and by 9.3% in services (G to N).

In Industry (13.2%):

- the wage costs increased by 16.2% and the other labour costs increased by 0.9%;
- the average cost per employee decreased by 3.3%;
- the number of hours actually worked per employee decreased by 14.5%.

**In Construction (4.7%):**

- the wage costs increased by 5.6% and the other labour costs increased by 1.1%;
- the average cost per employee decreased by 0.1%;
- the number of hours actually worked per employee decreased by 4.6%.

**In Services (9.3%):**

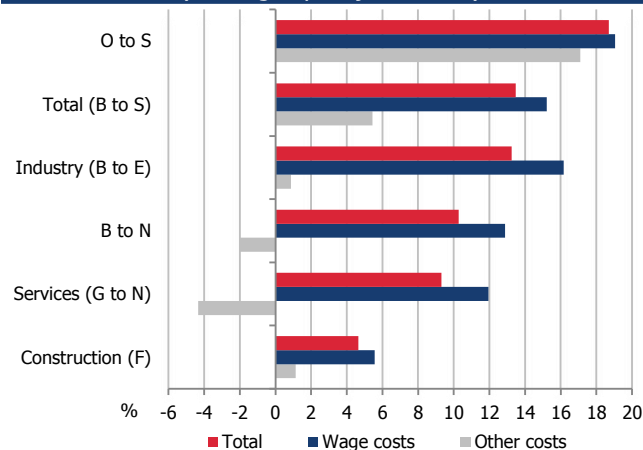
- the wage costs increased by 11.9% and the other labour costs decreased by 4.3%;
- the average cost per employee decreased by 2.7%;
- the number of hours actually worked per employee decreased by 10.5%.

**Sections O to S**

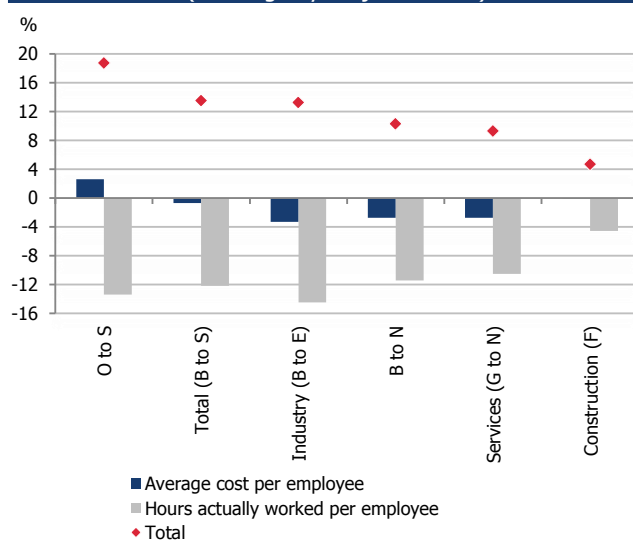
In the activities from sections O to S, the LCI recorded an increase of 18.7%. In these activities:

- the wage costs increased by 19.1% and the other labour costs increased by 17.1%;
- the average cost per employee increased by 2.6%;
- This was the only group of activities where the average cost per employee did not decrease, which will be related with the non-adoption of the simplified layoff in Public Administration;
- the number of hours actually worked per employee decreased by 13.4%.

**Figure 3: LCI year-on-year rate of change by economic activity (NACE-Rev. 2) in the 2<sup>nd</sup> quarter of 2020 (working days adjusted data)**



**Figure 4: LCI year-on-year rate of change by economic activity (NACE-Rev. 2) in the 2<sup>nd</sup> quarter of 2020 (working days adjusted data)**



### 3. Comparison with the European Union

The latest available information by country on the LCI year-on-year change reports to the 1<sup>st</sup> quarter of 2020 and was published by Eurostat in the 16<sup>th</sup> June of 2020 (Figure 5).

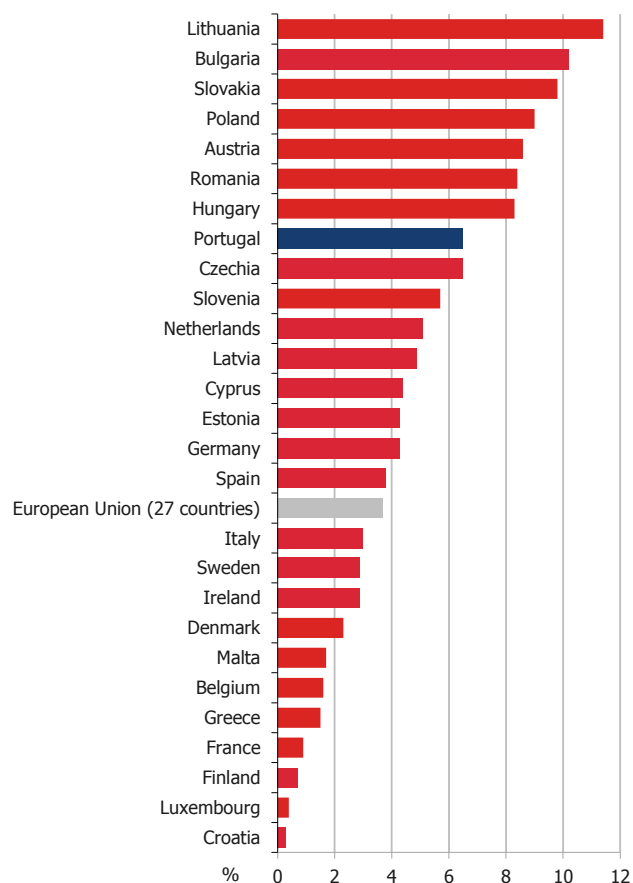
The LCI year-on-year rate of change for the European Union (27 countries) was 3.7%, in the 1<sup>st</sup> quarter of 2020.

In sixteen countries, the LCI rates of change were larger than the European Union average, with Lithuania recording the largest LCI increase (11.4%).

In eleven countries, the LCI recorded increases, albeit lower than the European Union average, from 0.3%, in Croatia, to 3.0% in Italy.

Portugal registered a year-on-year increase larger than the European Union average, of 6.5%.<sup>3</sup>

**Figure 5: LCI year-on-year rate of change by European Union Country (28) in the 1<sup>st</sup> quarter of 2020 (working days adjusted data)**



<sup>3</sup> This value has now been revised to 7.7% (as described in the Technical note, page 8).

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

Economic activity (sections from Nace-Rev. 2)	Q2-2019			Q3-2019			Q4-2019			Q1-2020			Q2-2020		
	Total	Wage costs	Other costs	Total	Wage costs	Other costs	Total	Wage costs	Other costs	Total	Wage costs	Other costs	Total	Wage costs	Other costs
<b>Total (B to S)</b>	<b>0.2</b>	<b>0.0</b>	<b>0.9</b>	<b>4.2</b>	<b>4.1</b>	<b>4.8</b>	<b>0.8</b>	<b>0.7</b>	<b>1.2</b>	<b>7.7</b>	<b>7.6</b>	<b>8.1</b>	<b>13.5</b>	<b>15.2</b>	<b>5.4</b>
B to N	-1.1	-1.4	0.1	4.2	4.1	5.0	0.6	0.6	1.1	6.6	6.5	7.1	10.3	12.9	-2.0
Industry (B to E)	-0.9	-1.0	-0.5	3.3	3.1	4.0	1.2	1.3	1.1	7.7	7.7	7.9	13.2	16.2	0.9
Construction (F)	-0.3	-0.8	1.5	4.0	3.7	5.1	3.3	3.0	4.2	6.3	6.1	7.2	4.7	5.6	1.1
Services (G to N)	-1.3	-1.6	0.2	4.7	4.6	5.6	0.0	-0.1	0.6	6.0	5.9	6.5	9.3	11.9	-4.3
O to S	2.4	2.5	2.2	4.3	4.2	4.5	1.1	1.1	1.4	9.5	9.4	9.8	18.7	19.1	17.1

**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)**

Economic activity (sections from Nace-Rev. 2)	Q2-2019			Q3-2019			Q4-2019			Q1-2020			Q2-2020		
	Total	Wage costs	Other costs	Total	Wage costs	Other costs	Total	Wage costs	Other costs	Total	Wage costs	Other costs	Total	Wage costs	Other costs
<b>Total (B to S)</b>	<b>3.5</b>	<b>3.4</b>	<b>4.3</b>	<b>2.6</b>	<b>2.5</b>	<b>3.2</b>	<b>-0.7</b>	<b>-0.8</b>	<b>-0.4</b>	<b>6.0</b>	<b>5.9</b>	<b>6.4</b>	<b>11.6</b>	<b>13.3</b>	<b>3.7</b>
B to N	2.2	1.9	3.4	2.6	2.5	3.4	-0.9	-1.0	-0.5	4.9	4.8	5.4	8.5	11.0	-3.6
Industry (B to E)	2.4	2.3	2.9	1.7	1.5	2.4	-0.3	-0.3	-0.4	6.0	6.0	6.2	11.4	14.3	-0.8
Construction (F)	3.0	2.5	4.9	2.4	2.1	3.5	1.7	1.4	2.6	4.7	4.5	5.5	2.9	3.8	-0.5
Services (G to N)	1.9	1.6	3.6	3.1	3.0	3.9	-1.5	-1.7	-1.0	4.3	4.2	4.8	7.5	10.1	-5.9
O to S	5.8	5.9	5.6	2.7	2.6	2.9	-0.4	-0.5	-0.1	7.7	7.7	8.1	16.8	17.1	15.2

Source: INE, Labour Cost Index - 2<sup>nd</sup> quarter of 2020.

**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, waste management and remediation activities   | N - Administrative and support service activities                  |
| F - Construction  | O - Public administration, defence, and compulsory social security |
| G - Wholesale and retail trade; repair of motor vehicles and motor cycles | 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)**

Economic activity (sections from Nace-Rev. 2)	Q2-2019			Q3-2019			Q4-2019			Q1-2020			Q2-2020		
	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
<b>Total (B to S)</b>	<b>0.2</b>	<b>3.2</b>	<b>3.1</b>	<b>4.2</b>	<b>3.3</b>	<b>-0.8</b>	<b>0.8</b>	<b>2.9</b>	<b>2.1</b>	<b>7.7</b>	<b>3.4</b>	<b>-3.9</b>	<b>13.5</b>	<b>-0.7</b>	<b>-12.2</b>
B to N	-1.1	3.5	4.7	4.2	3.6	-0.5	0.6	3.0	2.4	6.6	3.5	-2.9	10.3	-2.7	-11.4
Industry (B to E)	-0.9	3.6	4.6	3.3	3.8	0.5	1.2	3.3	2.1	7.7	3.7	-3.7	13.2	-3.3	-14.5
Construction (F)	-0.3	2.9	3.2	4.0	3.3	-0.6	3.3	2.9	-0.4	6.3	3.5	-2.6	4.7	-0.1	-4.6
Services (G to N)	-1.3	3.5	5.0	4.7	3.6	-1.0	0.0	2.9	2.9	6.0	3.3	-2.5	9.3	-2.7	-10.5
O to S	2.4	2.7	0.4	4.3	2.9	-1.3	1.1	2.8	1.6	9.5	3.3	-5.6	18.7	2.6	-13.4

**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)**

Economic activity (sections from Nace-Rev. 2)	Q2-2019			Q3-2019			Q4-2019			Q1-2020			Q2-2020		
	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
<b>Total (B to S)</b>	<b>3.5</b>	<b>3.2</b>	<b>-0.2</b>	<b>2.6</b>	<b>3.3</b>	<b>0.7</b>	<b>-0.7</b>	<b>2.9</b>	<b>3.7</b>	<b>6.0</b>	<b>3.4</b>	<b>-2.4</b>	<b>11.6</b>	<b>-0.7</b>	<b>-10.7</b>
B to N	2.2	3.5	1.3	2.6	3.6	1.0	-0.9	3.0	4.0	4.9	3.5	-1.4	8.5	-2.7	-9.9
Industry (B to E)	2.4	3.6	1.2	1.7	3.8	2.0	-0.3	3.3	3.7	6.0	3.7	-2.2	11.4	-3.3	-13.1
Construction (F)	3.0	2.9	-0.1	2.4	3.3	0.9	1.7	2.9	1.2	4.7	3.5	-1.1	2.9	-0.1	-3.0
Services (G to N)	1.9	3.5	1.6	3.1	3.6	0.5	-1.5	2.9	4.6	4.3	3.3	-0.9	7.5	-2.7	-9.0
O to S	5.8	2.7	-2.9	2.7	2.9	0.2	-0.4	2.8	3.2	7.7	3.3	-4.1	16.8	2.6	-11.9

Source: INE, Labour Cost Index - 2<sup>nd</sup> quarter of 2020.

**Sections from Nace-Rev. 2**

- B - Mining and quarrying
- C - Manufacturing
- D - Electricity, gas, steam and air conditions supply
- E - Water supply, sewerage, waste management and remediation activities
- F - Construction
- G - Wholesale and retail trade; repair of motor vehicles and motor cycles
- 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

With the publication of the results for the 1<sup>st</sup> quarter of 2019, Statistics Portugal started the dissemination of a new series of the Labour Cost Index (LCI), with the base year in 2016, in line with Eurostat's procedure for the Labour Cost Index, whenever new data of the (quadrennial) Labour Cost Survey become available.

With the publication of the results for the 1<sup>st</sup> quarter of 2020, Statistics Portugal started to include, in the LCI calculation, regarding the information related to the labour costs obtained from administrative sources, data corresponding to the universe of about 386 thousand entities (instead of the actual sample of 3 800 entities), which declared earnings for a total of 4.2 million workers. The information on hours actually worked continues to be obtained by direct inquiry from the entities that belong to the above mentioned sample and no changes were introduced at this level.

This change has impact in the indices released since the 1<sup>st</sup> quarter of 2019.

The back series for all indices, from the 1<sup>st</sup> quarter of 2008, are available at the Official Statistics website.

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) contribute to explaining their developments.

Labour costs incurred by the employer correspond to that reported by the entities to the Social Security (*Declaração Mensal de Remunerações*) and to the *Caixa Geral de Aposentações (Relação Contributiva)* 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 enterprises 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)], previously obtained, among other sources, from the Directorate-General of Budget of the Ministry of Finance, are no longer obtained this way, since they are a part of the universe of administrative data on costs now used.

The LCI is a 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.

(continuation)

With the purpose of eliminating the effects of a different number of working days in similar 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 at the Official Statistics website.

## Revisions

The data published in this release concerning the last quarters are subject to revisions. These revisions result from the inclusion of information for the last quarter sent lately by some enterprises of the sample survey on hours worked and from the update of information obtained through administrative sources, namely by data from the *Declaração Mensal de Remunerações* reported on a monthly basis by the enterprises to the Social Security.

The impact of those revisions, measured by the difference between the year-on-year rates of change published today and those published for the 1<sup>st</sup> quarter of 2020 in the Press Release "Labour Cost Index – 1<sup>st</sup> quarter of 2020", is available in the following table:

### Revision of the LCI year-on-year rates of change published in the 1<sup>st</sup> quarter of 2020

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
<b>Total (B to S)</b>	<b>1.2</b>	<b>1.3</b>	<b>0.5</b>	<b>0.3</b>	<b>-0.7</b>	<b>1.2</b>	<b>1.3</b>	<b>0.5</b>	<b>0.3</b>	<b>-0.7</b>
B to N	0.4	0.6	-0.6	0.1	-0.2	0.4	0.6	-0.6	0.1	-0.3
Industry (B to E)	0.2	0.3	-0.3	0.0	-0.1	0.2	0.3	-0.3	0.0	-0.2
Construction (F)	0.8	0.8	0.8	0.1	-0.6	0.9	0.9	0.8	0.1	-0.7
Services (G to N)	0.4	0.7	-1.0	0.1	-0.2	0.4	0.6	-1.0	0.1	-0.2
O to S	2.5	2.5	2.3	0.7	-1.5	2.4	2.5	2.3	0.7	-1.5

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 31<sup>st</sup> of July of 2020. The response rate of the LCI survey on hours worked was 87.8%.

**Next Press Release:** 13 November 2020.