

May, 15th 2013

Labour Cost Index 1st quarter of 2013

The Labour Cost Index decreased by 0.3% from the same quarter in 2012

The Labour Cost Index adjusted for working days decreased by 0.3% in the 1st quarter of 2013, compared with the same period in 2012. This change had been -8.1% in the previous quarter.

The two main labour cost items are wage costs (per hour actually worked) and other costs (non-wage costs, notably employers' social security contributions, per hour actually worked). Wage costs decreased by 1.3% from the same period a year earlier, while other costs increased by 3.3%.

1. Introduction

With the publication of results for the 1st quarter of 2013 (see the introductory note to this new series on page 7), Statistics Portugal initiates the dissemination of a new series of Labour Cost Index (LCI) data, for which the base year is 2008. Back series for all indices analysed in this press release, from the 1st quarter of 2008, are available on the Official Statistics Portal.

The main changes were introduced in the following fields: sampling frame, weight structure, questionnaire, and data collection mode. There were no changes to the remaining elements characterising this statistical operation, particularly as regards: reference legal framework, concepts, technical specification of the index, frequency of results, and auxiliary data sources used (see the introductory note to this new series on page 7).

The main results obtained in this new data series are analysed below.

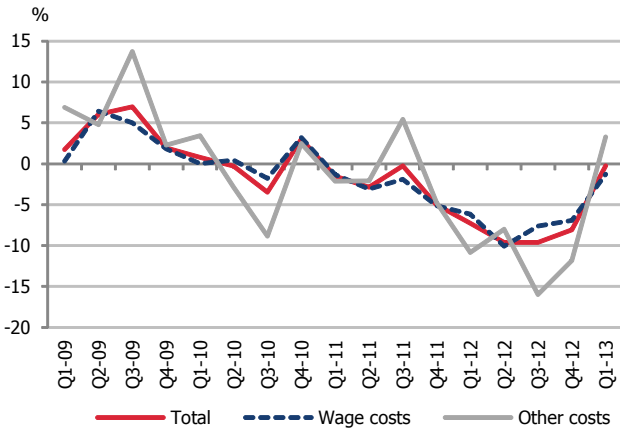
2. Labour Cost Index and respective items

The LCI¹ recorded a year-on-year decrease of 0.3% in the 1st quarter of 2013. This followed a period of deceleration started by the end of 2009 and of successive declines observed in almost all following quarters (Figure 1).

LCI is a short-term indicator that measures the evolution of labour costs per hour actually worked (hourly labour cost) incurred by the employer. These costs include, in addition to wage costs, other labour costs incurred by the employer (see technical note on page 9).

¹ Data analysed in this press release are adjusted for working days. Raw data, not adjusted for seasonal and working day effects, are available in the annex tables and on the Official Statistics Portal.

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



From yet another viewpoint, as it is a labour cost index calculated as the ratio of two items, i.e. average cost per employee and number of hours actually worked per employee (hereinafter referred to as average labour costs and hours actually worked), its evolution is determined by quarterly changes in each of these items.

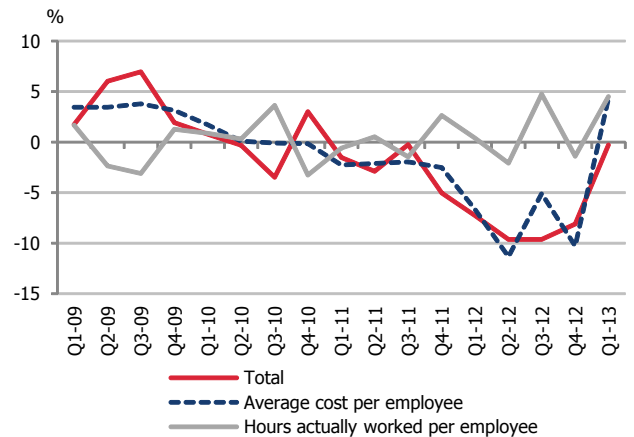
This press release analyses LCI series broken down into several items, according to the two mentioned viewpoints: (1) wage costs (per hour actually worked) *versus* other costs (non-wage costs, also per hour actually worked); (2) average labour costs *versus* hours actually worked.

Wage costs decreased by 1.3% from the same period a year earlier, while other costs increased by 3.3% (Figure 1). The trend described for the overall index in the past few years is noticeable in both cases.

The year-on-year change in the LCI also resulted from the combined effect of an increase in average labour costs (4.3%) and an increase, larger, in the number of hours actually worked (4.5%) (Figure 2). In the past few years labour cost has decelerated, which gave rise

to decreases from the 1st quarter of 2011 onwards. By contrast, the number of hours actually worked was more stable.

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



3. Sectors of economic activity

The year-on-year decrease in the LCI was also observed 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). For this group, the LCI decreased by 0.6%. For the subgroup composed by the remaining economic activities covered by the LCI (sections O to S), which include mostly, but not exclusively, the non-business economy or the public sector of the economy, it was recorded a year-on-year increase of 0.3%.

In activities from sections B to N:

- wage costs and other costs decreased by 0.4% and 1.4%, respectively (Figure 3);
- the decrease in the LCI resulted from an increase in average labour costs (4.3%) and an

increase, larger, in the number of hours actually worked (5.0%) (Figure 4).

increase, larger, in the number of hours actually worked (5.6%).

In activities from sections O to S:

- wage costs decreased by 2.6% and other costs increased by 8.8%;
- the increase in the LCI resulted from an increase in average labour costs (4.2%) and an increase, smaller, in the number of hours actually worked (3.9%).

Among the activities from sections B to N, the LCI recorded a year on-year decrease of 1.3% in industry (sections B to E), an increase of 3.6% in construction (section F), and a decrease of 1.1% in services (G to N).

In industry:

- wage costs and other costs decreased by 0.9% and 3.2% respectively;
- the decrease in the LCI resulted from an increase in average labour costs (3.4%) and an increase, larger, in the number of hours actually worked (4.8%).

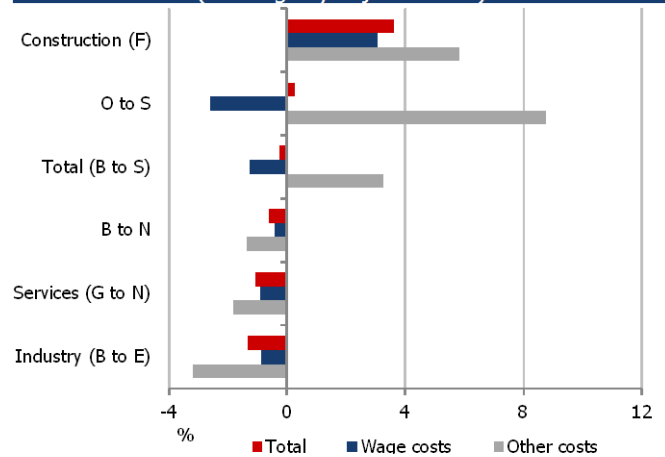
In construction:

- wage costs and other costs increased by 3.0% and 5.8% respectively;
- the increase in the LCI resulted from an increase in average labour costs (6.4%) and an increase, smaller, in the number of hours actually worked (2.7%).

In services:

- wage costs and other costs decreased by 0.9% and 1.8% respectively;
- the decrease in the LCI resulted from an increase in average labour costs (4.5%) and an

Figure 3: LCI year-on-year rate of change by economic activity (NACE-Rev. 2) in the 1st quarter of 2013 (working day adjusted data)



- B - Mining and quarrying
- C - Manufacturing
- D - Electricity, gas, steam and air conditions supply
- E - Water supply, sewerage, waste management and remediation activities
- 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

Figure 4: LCI year-on-year rate of change by economic activity (NACE-Rev. 2) in the 1st quarter of 2013 (working day adjusted data)

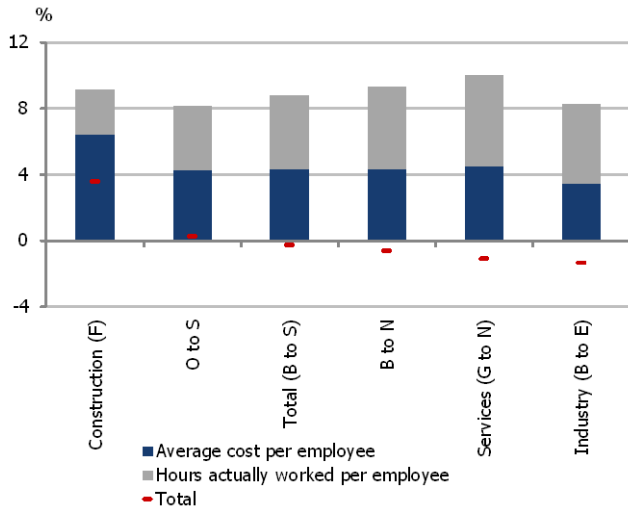
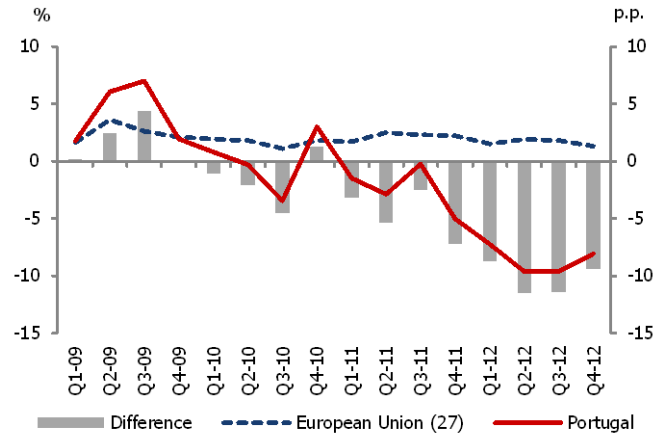


Figure 5: LCI year-on-year rate of change in the European Union and in Portugal (working day adjusted data)



4. Comparison with the European Union

Figure 5 shows the developments in the year-on-year change in the LCI in Portugal (data from the new series – base 2008) and in the European Union (data released by Eurostat on 15 March 2013), from the 1st quarter of 2009 to the 4th quarter of 2012.

Its analysis shows that the LCI in Portugal recorded globally lower year-on-year changes than those observed, on average, for the European Union (27 countries) since the 1st quarter of 2010. Those changes gave rise to successive decreases from the beginning of 2011.

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

Unit: %

Economic activity (sections from Nace-Rev. 2)	Q1-2012			Q2-2012			Q3-2012			Q4-2012			Q1-2013		
	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
Total (B to S)	-7.3	-6.2	-10.8	-9.6	-10.1	-8.0	-9.6	-7.6	-16.0	-8.1	-6.9	-11.8	-0.3	-1.3	3.3
B to N	-7.2	-6.6	-9.7	-0.1	-0.7	2.4	-11.5	-8.8	-20.9	-0.5	1.3	-7.2	-0.6	-0.4	-1.4
Industry (B to E)	-2.7	-3.2	-0.7	-7.1	-9.4	3.4	-1.9	2.7	-17.0	-2.9	-1.7	-7.3	-1.3	-0.9	-3.2
Construction (F)	0.6	1.7	-3.3	1.9	0.5	7.8	-12.3	-6.3	-30.0	0.8	2.0	-3.9	3.6	3.0	5.8
Services (G to N)	-11.3	-10.1	-15.6	4.3	5.2	0.8	-17.0	-16.0	-20.9	0.7	3.1	-7.7	-1.1	-0.9	-1.8
O to S	-7.3	-5.5	-12.1	-21.0	-22.0	-17.9	-6.9	-5.8	-9.9	-18.7	-19.2	-17.1	0.3	-2.6	8.8

**Table 2: Labour Cost Index (LCI) year-on-year rate of change by component and economic activity (NACE-Rev. 2)
(not working day adjusted data)**

Unit: %

Economic activity (sections from Nace-Rev. 2)	Q1-2012			Q2-2012			Q3-2012			Q4-2012			Q1-2013		
	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
Total (B to S)	-8.7	-7.6	-12.2	-12.5	-13.0	-11.0	-8.2	-6.2	-14.7	-11.0	-9.9	-14.6	4.7	3.6	8.4
B to N	-8.7	-8.0	-11.1	-3.3	-3.9	-0.9	-10.1	-7.4	-19.7	-3.7	-1.9	-10.1	4.3	4.5	3.5
Industry (B to E)	-4.2	-4.7	-2.3	-10.1	-12.3	0.0	-0.4	4.3	-15.7	-5.9	-4.8	-10.3	3.5	4.0	1.6
Construction (F)	-0.9	0.1	-4.8	-1.4	-2.8	4.3	-10.9	-4.8	-28.9	-2.4	-1.2	-7.0	8.7	8.1	11.0
Services (G to N)	-12.7	-11.5	-16.9	0.9	1.8	-2.5	-15.7	-14.6	-19.7	-2.5	-0.2	-10.7	3.8	4.0	3.0
O to S	-8.7	-7.0	-13.5	-23.6	-24.5	-20.6	-5.4	-4.3	-8.4	-21.3	-21.8	-19.8	5.2	2.2	14.1

Source: INE, Labour Cost Index - 1st quarter of 2013.

Sections from Nace-Rev. 2

- | | |
|---|--|
| B - Mining and quarrying | L - Real estate activities |
| C - Manufacturing | M - Professional, scientific and technical activities |
| D - Electricity, gas, steam and air conditions supply | N - Administrative and support service activities |
| E - Water supply, sewerage, | 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 |
| K - Financial and insurance activities | |

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

Unit: %

Economic activity (sections from Nace-Rev. 2)	Q1-2012			Q2-2012			Q3-2012			Q4-2012			Q1-2013		
	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)	-7.3	-6.6	0.4	-9.6	-11.3	-2.1	-9.6	-5.1	4.8	-8.1	-10.3	-1.4	-0.3	4.3	4.5
B to N	-7.2	-6.1	0.8	-0.1	-2.7	-2.9	-11.5	-5.0	7.2	-0.5	-3.1	-2.5	-0.6	4.3	5.0
Industry (B to E)	-2.7	-3.0	-0.3	-7.1	-8.6	-1.6	-1.9	0.6	2.5	-2.9	-2.0	0.9	-1.3	3.4	4.8
Construction (F)	0.6	1.1	0.5	1.9	1.3	-0.6	-12.3	-8.2	4.6	0.8	0.2	-0.6	3.6	6.4	2.7
Services (G to N)	-11.3	-9.6	1.5	4.3	0.0	-4.2	-17.0	-7.7	10.7	0.7	-4.5	-5.1	-1.1	4.5	5.6
O to S	-7.3	-7.3	0.0	-21.0	-21.8	-1.0	-6.9	-5.3	1.8	-18.7	-19.0	0.0	0.3	4.2	3.9

**Table 4: Labour Cost Index (LCI) year-on-year rate of change by source of variation and economic activity (NACE-Rev. 2)
(not working day adjusted data)**

Unit: %

Economic activity (sections from Nace-Rev. 2)	Q1-2012			Q2-2012			Q3-2012			Q4-2012			Q1-2013		
	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)	-8.7	-6.6	2.0	-12.5	-11.3	1.2	-8.2	-5.1	3.2	-11.0	-10.3	1.8	4.7	4.3	-0.4
B to N	-8.7	-6.1	2.4	-3.3	-2.7	0.3	-10.1	-5.0	5.5	-3.7	-3.1	0.7	4.3	4.3	0.1
Industry (B to E)	-4.2	-3.0	1.2	-10.1	-8.6	1.7	-0.4	0.6	0.9	-5.9	-2.0	4.3	3.5	3.4	-0.1
Construction (F)	-0.9	1.1	2.1	-1.4	1.3	2.7	-10.9	-8.2	3.0	-2.4	0.2	2.6	8.7	6.4	-2.1
Services (G to N)	-12.7	-9.6	3.1	0.9	0.0	-1.0	-15.7	-7.7	9.0	-2.5	-4.5	-2.0	3.8	4.5	0.6
O to S	-8.7	-7.3	1.6	-23.6	-21.8	2.3	-5.4	-5.3	0.3	-21.3	-19.0	3.3	5.2	4.2	-0.9

Source: INE, Labour Cost Index - 1st quarter of 2013.

Sections from Nace-Rev. 2

- | | |
|---|--|
| B - Mining and quarrying | L - Real estate activities |
| C - Manufacturing | M - Professional, scientific and technical activities |
| D - Electricity, gas, steam and air conditions supply | N - Administrative and support service activities |
| E - Water supply, sewerage, waste | O - Public administration, defence, and compulsory social security |
| G - Wholesale and retail trade; repair of | 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 |
| K - Financial and insurance activities | |

Labour Cost Index – 1st quarter of 2013

6/9

INTRODUCTORY NOTE ON THE LABOUR COST INDEX IN THE NEW BASE (2008)

With the publication of results for the first quarter of 2013, Statistics Portugal initiates the dissemination of a new series of Labour Cost Index (LCI) data, for which the base year is 2008 (base year for the previous data series: 2000). Back series for all indices analysed in this press release, as of the first quarter of 2008, are available on the Official Statistics Website.

Main changes introduced *vis-à-vis* the statistical operation for the base year 2000:

- The adoption of a new base year (2008). The choice of this year was based as usual on the reference year for the last available data from the Labour Cost Survey (LCS), conducted every four years. LCS data are used to obtain results that are representative for the universe of local units with one or more employees, given that the LCI direct and regular data collection is addressed only to local units with ten or more employees in order to minimize the statistical burden on enterprises.
- The sample in force in the statistical operation for the base year 2000 was fixed, as most samples used for calculating indices. As this sample became old, and following methodological studies undertaken, a new sample was selected, which also envisaged an annual updating mechanism.
- The sample in force in the statistical operation for the base year 2000 was extracted from the Lists of Personnel, which was the most comprehensive local unit file at the time. Meanwhile, with the consolidation of a local unit file in Statistics Portugal, a new sample was extracted from the "reference population for surveys on local units" of Statistics Portugal, being this the sampling frame for the LCI (base 2008).
- Updating of the weight structure used in the aggregation of economic activities, resulting from changes in the economy's sectoral composition between 2000 and 2008 and the new sampling frame.

Weight structure used in the aggregation of economic activities (%)

Economic activity (sections from Nace-Rev. 2)	Weights base 2000*	Weights base 2008
Total (B a S)	100.0	100.0
B to N	61.2	55.0
Industry (B to E)	21.9	18.7
B - Mining and quarrying	0.4	0.3
C - Manufacturing	20.2	16.7
D - Electricity, gas, steam and air conditions supply	1.0	0.8
E - Water supply, sewerage, waste management and remediation activities	0.3	1.0
Construction (F)	6.1	6.4
Services (G to N)	33.2	29.8
G - Wholesale and retail trade; repair of motor vehicles and motor cycles	13.6	9.2
H - Transport and storage	6.2	4.2
I - Accommodation and food service activities	2.9	2.1
J - Information and communication	0.6	2.5
K - Financial and insurance activities	5.0	4.1
L - Real estate activities	0.3	0.7
M - Professional, scientific and technical activities	4.5	2.2
N - Administrative and support service activities	0.1	4.7
O to S	38.8	45.0
O - Public administration, defence, and compulsory social security	16.7	20.7
P - Education	13.3	16.2
Q - Human health and social work activities	7.7	7.4
R - Arts, entertainment and recreation	0.8	0.4
S - Other service activities	0.3	0.3

Note: * Economic activities reclassified into NACE-Rev. 2

INTRODUCTORY NOTE ON THE LABOUR COST INDEX IN THE NEW BASE (2008) (cont'd)

- The new questionnaire continued to incorporate all labour cost items of the statistical operation for the base year 2000 and also went on to incorporate a series of questions on duration of work, (paid and unpaid) hours not worked and overtime. Data collection by occupation (not required by Regulation) was discontinued, so as to reduce the statistical burden on enterprises.
- In the statistical operation for the base year 2000 data collection was carried out by post. In the statistical operation for the base year 2008 answers were collected through an electronic questionnaire over the Internet (WEBINQ).

Vis-à-vis the statistical operation for the base year 2000 **the following remained unchanged:**

- The legal framework – basic Regulation [Regulation (EC) No 450/2003 of the European Parliament and of the Council of 27 February 2003] and following, setting forth:
 - The concepts regarding the various labour cost items and hours actually worked.
 - The technical specification of the index (Laspeyres index).
 - The economic activities covered: activities from Sections B to S of NACE-Rev. 2.
 - The quarterly frequency.
- Most of the ancillary statistical sources used, so as to ensure compliance with the principle of administrative simplification. In fact, use continued to be made of data from the statistical sources needed to calculate the LCI. These sources were administrative or relied on direct collection: 2008 LCS; Labour Force Survey and Directorate-General for Budget to obtain information for the public administration, namely hours worked and labour cost items, respectively.

Note concerning the release of the “Labour Cost Index – 4th quarter of 2012” in February 15, 2013:

The first release of the results coming from the new LCI data series occurred in February 15, 2013, along with the Press Release “Labour Cost Index – 4th quarter of 2012”. After the dissemination of these results, Statistics Portugal found out an error in the data reported by a substantial set of establishments concerning few components of the labour cost. The Press Release and the related data, available on the Official Statistics Website, were immediately suspended. The corrected values were then collected again and the indexes were recalculated. The revised series, from the first quarter of 2008 onwards, are now available on the Official Statistics Website in replacement of the previous ones.

Given the complexity of this statistical operation, Statistics Portugal will keep on developing actions, in cooperation with the responding firms, in order to improve the results' quality.

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 CAE-Rev. 3.

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 for this statistical operation, which is available (in Portuguese) at <http://smi.ine.pt/DocumentacaoMetodologica/Detalhes/1064>.

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.

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 seasonal and working day effects, are available in the annex tables and on the Official Statistics Portal.

Revisions

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

This press release was prepared with the data received up to 1 May 2013. The response rate was 78.9%.