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**REPORT FROM THE COMMISSION TO THE EUROPEAN PARLIAMENT AND
THE COUNCIL**

**on the implementation of Regulation (EC) No 450/2003 of the European Parliament and
of the Council concerning the labour cost index (LCI)**

1. INTRODUCTION

Regulation (EC) No 450/2003 of the European Parliament and of the Council of 27 February 2003 concerning the labour cost index¹ establishes a common framework for the production and provision to the Commission of comparable labour cost indices by Member States. The Commission (Eurostat) publishes a quarterly news release on the hourly labour cost index on its website.² It contains a complete data set, broken down by economic activity and by the components of labour costs. It also includes both quarter-on-quarter and year-on-year growth rates.

In July 2003, the Commission adopted Regulation (EC) No 1216/2003,³ setting out in greater detail the procedures that Member States must follow when sending their indices to the Commission, the seasonal adjustments to be made to the indices and the content of the national quality reports. In March 2007, the Commission then adopted Regulation (EC) No 224/2007.⁴ It amends Regulation (EC) No 1216/2003 and extends the scope of the labour cost index to cover the economic activities defined in NACE Revision 1 sections L, M, N and O. This extension means that non-market services, which account for the largest proportion of the economic activities specified in these sections and which may have different dynamics from market services, are also covered. In August 2007, the Commission adopted Regulation (EC) No 973/2007.⁵ This amended a number of regulations on specific statistical domains, including the labour cost index, in order to be able to implement the statistical classification of economic activities set out in NACE Revision 2.

Pursuant to Article 13 of Regulation (EC) No 450/2003, the Commission must submit a report to the European Parliament and the Council every two years. The report should, in particular, examine the quality of the labour cost index data. The present report relates to the labour cost index data provided to the Commission for the reference quarters from 2012Q3 to 2014Q2 (inclusive).

In Annex I of Regulation (EC) No 1216/2003, the quality of the labour cost index is defined in terms of the following criteria: relevance, accuracy, punctuality of delivery of data, accessibility and clarity, comparability, consistency and completeness.

As was the case in the last reporting period, the level of accuracy, accessibility and clarity remains satisfactory. This report will therefore focus on improvements made in relation to relevance and coverage, and will address the issues of the consistency of the data with

¹ OJ L 69, 13.3.2003, p.1.

² The quarterly news release is published on the dates set in the release calendar; both can be found on Eurostat's website (<http://ec.europa.eu/eurostat>).

³ Commission Regulation (EC) No 1216/2003 of 7 July 2003 implementing Regulation (EC) No 450/2003 of the European Parliament and of the Council concerning the labour cost index (OJ L 169, 8.7.2003, p. 37).

⁴ Commission Regulation (EC) No 224/2007 of 1 March 2007 amending Regulation (EC) No 1216/2003 as regards the economic activities covered by the labour cost index (OJ L 64, 2.3.2007, p. 23).

⁵ Commission Regulation (EC) No 973/2007 of 20 August 2007 amending certain EC Regulations on specific statistical domains implementing the statistical classification of economic activities NACE Revision 2 (OJ L 216, 21.8.2007, p. 10).

national accounts data and the comparability of working-day adjusted data. Particular attention is given to the problem of data not being provided by Member States within the deadlines set, and the consequences of this for the quality of the published European aggregates.

2. GENERAL PROGRESS SINCE THE LAST REPORT

Over the last reporting period, Eurostat has worked on simplifying and harmonising the standards relating to both data and metadata (quality reports) being sent by Member States to the Commission. Nomenclatures and variables used in the labour cost index data have been brought into line with the SDMX⁶ standard, which is the new worldwide reference for sharing statistical information. Most Member States have started sending their data in SDMX format, and Eurostat has asked those that have not yet adopted this format (Belgium, Denmark, Ireland, Greece, Croatia, Luxembourg and Romania) to do so by the end of 2014.

The quality reports submitted by Member States have been migrated to the European Statistical System Metadata Handler, an IT tool that allows each Member State to load their quality reports remotely and to update the parts that have changed during the previous year without having to re-submit them in full. In addition, this IT tool allows the national quality reports to be placed on Eurostat's reference database, thus making them available to all users.

Both initiatives have helped to simplify the production process, improving the service provided to users while reducing the burden on national statistical institutes.

In general, the availability and quality of the labour cost index has continued to improve. Seasonally adjusted data are now available from all Member States except Ireland and Croatia. Eurostat has decided not to make the seasonally adjusted labour cost index the main point of reference in the news releases, although the figures are highlighted on the relevant page of the Statistics Explained site.⁷ National quality reports for the reference year 2013 were provided by all Member States except Greece and Croatia, and have been made available to the public.

One of the areas that continues to receive attention is the consistency of the labour cost index with other statistics on labour costs, in particular the quarterly national accounts data. This has been analysed from both a theoretical and an empirical point of view and the results have been discussed with Member States. Moreover, the Commission (Eurostat) will organise a workshop with Member States in 2015 at which they will assess and try to further improve the overall quality of statistics on labour costs.

The Commission (Eurostat) has also improved the availability of estimates of hourly labour costs by publishing averages for a one-year period that are largely based on the labour cost index and can be produced soon after the end of the reference period. As a result, national annual labour cost statistics, which used to be collected under a gentlemen's agreement, are

⁶ <http://sdmx.org/>.

⁷ http://epp.eurostat.ec.europa.eu/statistics_explained/index.php/Labour_cost_index_-_recent_trends.

no longer being provided by Member States for publication by the Commission. While the Member States have implemented and maintained the necessary infrastructure for producing the labour cost index, the Commission (Eurostat) has maintained and improved its system for receiving, verifying, processing, storing and disseminating the data, allowing data to be published promptly. These processes, which became fully operational in 2005, are continuously being reviewed and updated.

3. EVALUATION OF THE QUALITY OF THE DATA AND ITS EFFECT ON EUROPEAN AGGREGATES

3.1 Relevance

Changes in labour costs per hour worked are an important indicator for analysing short- and medium-term economic developments. The Commission and the European Central Bank use an index of labour costs per hour worked, which shows the short-term evolution of labour costs, to assess possible inflationary pressure caused by developments in the labour market. The index needs to be calculated as soon as possible after the data becomes available, for each Member State, for the whole EU and for the euro area. The labour cost index is also important for social partners involved in wage negotiations and for the Commission itself for monitoring short-term developments in labour costs. The labour cost index is one of the Principal European Economic Indicators.⁸

There is demand not only for information on quarterly percentage changes in labour costs, as measured by the labour cost index, but also, increasingly, for information on labour costs in absolute terms (euros per hour). In April 2012, Eurostat published early estimates (for 2011) of hourly labour costs in euros and in national currencies for the first time. These estimates, which were based on the labour cost index, were deemed to be of sufficient quality. As they can also be published much sooner after the end of the reference year than can the annual labour costs collected on the basis of a gentlemen's agreement, a decision was taken to stop sending the latter data as of 2014.

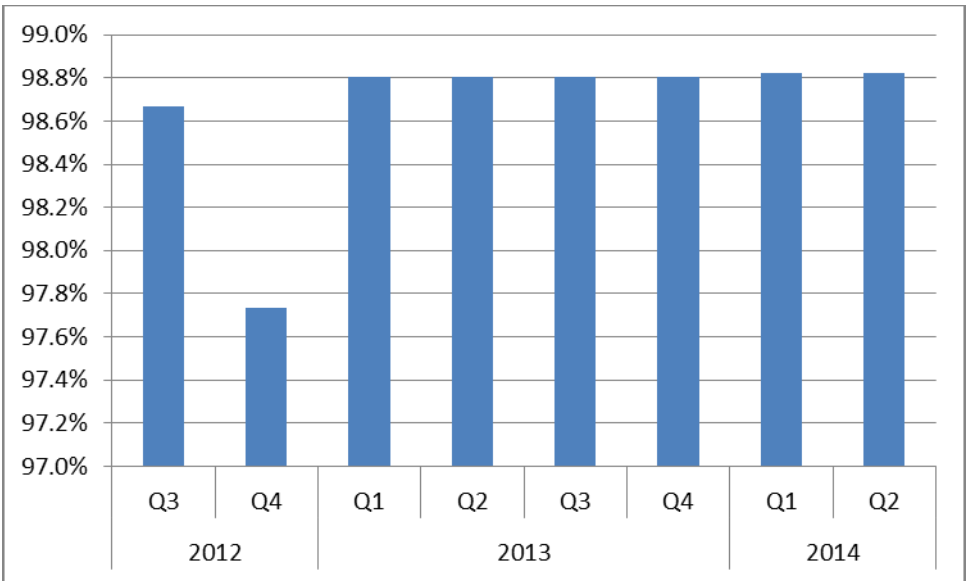
The publication of estimates of annual labour costs based on the labour cost index increased the already strong user demand for comprehensive and quick-to-produce information on the level of hourly labour costs. The Commission has received positive feedback on the publication of these estimates, and several users have expressed an interest in seeing breakdowns by NACE section as well as by cost component. The estimates were also published in the online database for the first time in 2013, in order to increase availability. The feasibility of publishing more detailed information will be evaluated further to analysis of the results of the 2012 Labour Cost Survey.

⁸ COM(2002) 661, Communication of the Commission to the European Parliament and the Council, *Towards improved methodologies for eurozone statistics and indicators*.

3.2 Punctuality and revisions

Member States’ punctuality in sending data to the Commission has improved since the previous report published in 2012. With the exception of one country,⁹ only minor delays have been encountered. Providing data on time is of the utmost importance for the production of the labour cost index, as delays in data delivery mean that estimates have to be used for EU and euro-area aggregates. This can result in unnecessarily large revisions at a later date. Figure 1 shows the proportion of total EU labour costs in euros for which data was available for each quarter at the time of the news release.

Figure 1: Available labour cost index data at time of publishing, percentage of total EU labour costs in euros



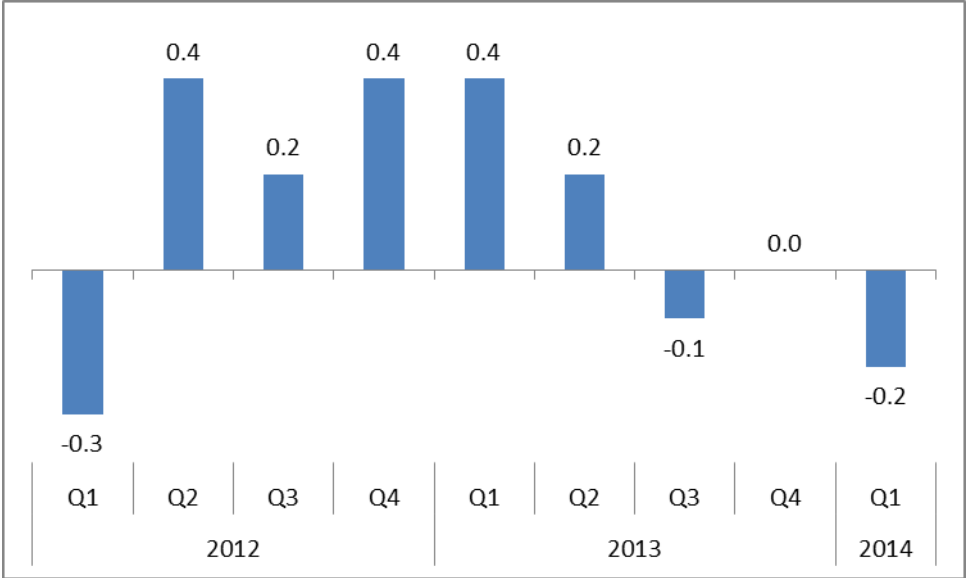
Two Member States (Croatia and the United Kingdom) each sent their data more than two days late on one occasion between the reference quarters 2012Q3 and 2014Q2. The data were, however, still delivered in time to be included in the news release. At the time of writing this report, only one Member State, Greece, had a structural problem preventing it from producing and delivering the labour cost index figures. Throughout the reference period, its data were consistently delivered too late to be included in the news release. Eurostat held a bilateral meeting with the Greek statistical office in May 2014, during which a roadmap for tackling these structural issues was agreed. Some progress has since been made in reducing the time taken to deliver data.

The labour cost index is made up of a number of different variables (e.g. labour costs and hours worked), which may be taken from several sources. This means that revisions may

⁹ Portugal was unable to deliver the labour cost index for 2012Q4 on time, due to problems with a major change in the national survey.

occur at any time, affecting the last quarter, several quarters or whole years of data. If adjustments to data relate to the reference year, the whole series has to be revised. Revisions of the EU headline figure¹⁰ (year-on-year growth rate) have exceeded 0.3 percentage points three times since the first quarter of 2012. In most quarters, the estimates have been revised upwards, reversing the trend seen in the previous report (see figure 2). Eurostat is continuing to investigate this issue in detail, making use of longer time-series.

Figure 2: Changes to data between the first figure published and the 2014Q2 release for EU-27/28 NACE Revision 2 sections B to S, aggregate in percentage points



3.3 Comparability: working-day adjustment

Article 1 of Commission Regulation (EC) No 1216/2003 states that labour cost index figures must be provided in non-seasonally adjusted, working-day adjusted and seasonally and working-day adjusted form. There are some exceptions made to this: a number of Member States have derogations for the delivery of non-seasonally adjusted data, and Croatia and Ireland only provide series for NACE Revision 2 sections O to S, which are too short for seasonal adjustment. Regulation (EC) No 450/2003 does not explicitly state whether working-day and seasonal adjustments have to be made using the direct or the indirect approach. Indirect adjustment is where the basic series is adjusted, and then used to construct higher-level aggregates. Direct adjustment means that every single series, including higher-level aggregates, is adjusted individually. Both approaches have their advantages and drawbacks, and both are supported by the European Statistical System guidelines on seasonal adjustment.¹¹ Member States can use either approach when adjusting the labour cost index.

Both approaches usually produce similar results, and, in general, the choice of one or the other does not lead to any problems. If, however, the identification of a correct model for

¹⁰ EU-27 up to and including 2013Q2, since then EU-28.

¹¹ The updated version of the guidelines will include a specific section on adjusting chain-linked indices.

adjustment is difficult due to the volatility of the raw data, the direct approach in particular may give rise to certain problems. For example, the adjusted index of the total cost component could prove to be either higher or lower than the adjusted index of its two sub-components. Eurostat has therefore systematically checked the data delivered by all Member States, to ensure that the total index is consistent with its sub-components by NACE section. Eurostat has introduced a policy of publishing only the total index, hiding the components if they differ by more than two basis points from the total.

3.4 Consistency with national accounts figures

For the annual quality report, Member States are asked to compare the growth rate of the labour cost index with that of employees' hourly compensation found in the national accounts (ESA95 definition). It is not realistic to expect the figures to be exactly the same. Even if almost identical definitions of labour cost are used, statistical treatments and sources may differ. Furthermore, collecting data on hours worked is particularly difficult for both the labour cost index and the national accounts. Despite these differences in methodology, the level of agreement (or lack thereof) between the two data sets can be used to identify potential problems in either. It was not possible to carry out this comparison exercise for Belgium, Croatia, Luxembourg and Malta, as these countries do not compile quarterly national accounts data for compensation of employees or hours worked.

Since the publication of the last report, Eurostat has started including the data from national accounts directly in its labour cost index database, making it easier to compare both sets of data.

For this quality report, Eurostat compared the non-seasonally adjusted NACE Revision 2 sections B to S aggregates. Any variation between the growth rate of the labour cost index and that of the hourly compensation of employees of more than two percentage points across the two-year period analysed for the report (i.e. one percentage point per year) is considered to warrant further analysis. This was the case for the Czech Republic, Estonia, Italy, Hungary, Poland, Portugal and Slovenia. The discrepancy between the two figures was over five percentage points for Italy and Portugal. In the case of Ireland and Sweden, the growth rate of the labour cost index and that of the hourly compensation of employees included in the national accounts data showed opposite signs in at least one quarter.

Eurostat has been analysing in detail the consistency of the labour cost index with national accounts data and the Labour Cost Survey, and will continue to address this question. The results of the analysis are discussed with Member States so as to identify and resolve underlying problems, in particular with respect to data on hours worked, with a view to improving consistency across the different statistical domains.

3.5 Completeness

Croatia and Ireland are the only Member States that do not currently provide seasonally adjusted data. Given that seasonally adjusted data are available for all other Member States, these data were to be published in the quarterly press release as well as in Eurostat's online database. After careful analysis of data quality and user needs, it was, however, decided to continue using working-day adjusted data only for the headline figures. This also ensures clarity and consistency with other price statistics (e.g. the consumer price index).

The quarterly news release has been adapted since the publication of the last report. In particular, the footnotes have been simplified and more of the technical information has been moved to the online Statistics Explained page.¹² As was previously the case, figures for NACE Revision 2 sections B to S provide the headline data, with some further breakdowns given in the tables.

4. CONCLUSIONS

Overall, the quality of the labour cost index has continued to improve since the previous report, published in 2012. The improvements in Member States' punctuality in delivering data and in the completeness of the data are particularly noteworthy. Moreover, the full availability of aggregates (including the NACE Revision 2 sections O to S) has added to the overall usefulness of the labour cost index. User needs are being better met thanks to the publication of yearly estimates of labour costs based on labour cost index data. Delivery of data by Member States is close to satisfactory. With the exception of Greece, no country was systematically late in providing data to the Commission.

In recent years, the Commission (Eurostat) has regularly urged Member States to make greater efforts to conform to requirements in this area. The Commission will continue to monitor as-yet-unresolved issues relating to non-compliance and data quality on a regular basis, using the data delivered and other national documentation, including quality reports. Where no or insufficient improvement is seen, the relevant national authorities will be approached and the Commission will take the necessary measures to enforce compliance.

¹² http://epp.eurostat.ec.europa.eu/statistics_explained/index.php/Labour_cost_index_-_recent_trends.